

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

COUNTY OF ALCONA

December 31, 2006

COUNTY OF ALCONA
BOARD OF COMMISSIONERS

Kevin Boyat
Chairperson

Carolyn Brummund
Vice-Chairperson

Sheila R. Phillips
Commissioner

Richard C. Simmonds
Commissioner

Kenneth R. Timm
Commissioner

COURT JUDGES

Ronald M. Bergeron
Circuit Judge

William R. Myles
Circuit Judge

Laura Frawley
Probate Judge

Allen Yenior
District Judge

OTHER ELECTED OFFICIALS

Anna McCoy
Treasurer

Patricia Truman
Clerk

Karen V. Healy
Register of Deeds

Douglas Ellinger
Sheriff

Thomas Weichel
Prosecuting Attorney

COUNTY POPULATION--2000
11,719

STATE EQUALIZED VALUATION--2006
\$1,006,359,800



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 16, 2007

County of Alcona
County Board of Commissioners
106 Fifth Street
Harrisville, Michigan 48740

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Alcona County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Alcona County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Alcona County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

During November 2006, the county requested the Michigan Department of Treasury to assist them in determining the amount of suspected embezzlement of county funds. County funds were determined to be missing from the duly designated depositories. The county treasurer pled guilty to embezzlement. The county recorded the embezzlement by reducing cash, investments, and revenue in the amount of \$1,202,019 for the fiscal year ending December 31, 2006.

In our opinion, after the adjustment to county records noted above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County

of Alcona, as of December 31, 2006 and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 16, 2007, on our consideration of the Alcona County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits I, J and K are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alcona County's basic financial statements. The accompanying supplementary and related information presented as Exhibits L through S is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALCONA COUNTY
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COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

The County's net assets for the governmental funds decreased \$125,882 from a year ago for the governmental activities. The County's net assets for the business-type activities decreased \$516,335 from a year ago. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2005	Governmental Activities 2006	Difference	Percent
Current and Other Assets	\$ 6,159,546	\$ 5,469,969	\$ (689,577)	-11%
Capital Assets	2,682,942	2,510,018	(172,924)	-6%
Total Assets	8,842,488	7,979,987	(862,501)	-10%
Long-Term Liabilities Outstanding	571,641	681,437	109,796	19%
Other Liabilities	2,196,129	1,349,714	(846,415)	-39%
Total Liabilities	2,767,770	2,031,151	(736,619)	-27%
Net Assets				
Invested in Capital Assets--Net of Related Debt	2,621,247	2,283,980	(337,267)	-13%
Restricted	2,486,540	2,292,079	(194,461)	-8%
Unrestricted	966,931	1,372,777	405,846	42%
Total Net Assets	\$ 6,074,718	\$ 5,948,836	\$ (125,882)	-2%

A portion of the County's net assets in the amount of \$2,283,980 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

An additional portion of the County's net assets, \$2,292,079, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$1,372,777 represents "*unrestricted net assets*" that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current calendar year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

	Business-Type Activities 2005	Business-Type Activities 2006	Difference	Percent
Other Assets	\$4,244,343	\$ 3,806,981	\$ (437,362)	-10%
Total Assets	4,244,343	3,806,981	(437,362)	-10%
Other Liabilities	195,000	273,973	78,973	40%
Total Liabilities	195,000	273,973	78,973	40%
Net Assets				
Unrestricted	4,049,343	3,533,008	(516,335)	-13%
Total Net Assets	\$4,049,343	\$ 3,533,008	\$ (516,335)	-13%

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets for the years ended December 31, 2005 and December 31, 2006:

	Governmental Activities <u>2005</u>	Governmental Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 1,831,545	\$ 2,009,865	\$ 178,320	10%
Operating Grants and Contributions	961,367	949,463	(11,904)	-1%
Capital Grants and Contributions	333,966		(333,966)	-100%
General Revenues				
Property Taxes	4,533,184	4,789,718	256,534	6%
Unrestricted Grants and Contributions	49,367		(49,367)	-100%
Unrestricted Investment Earnings	94,477	167,993	73,516	78%
Rentals		5,032	5,032	100%
Other Revenues	<u>92,645</u>	<u>12,501</u>	<u>(80,144)</u>	<u>-87%</u>
Total Revenues	<u>7,896,551</u>	<u>7,934,572</u>	<u>38,021</u>	<u>0%</u>
Program Expenses				
General Government	2,322,798	2,295,864	(26,934)	-1%
Public Safety	2,989,840	2,911,009	(78,831)	-3%
Public Works	7,660	28,365	20,705	270%
Health and Welfare	1,693,572	1,466,505	(227,067)	-13%
Community and Economic Development		262,527	262,527	-100%
Recreation and Culture	752,456	484,937	(267,519)	-36%
Other		189,523	189,523	-100%
Interest on Long-Term Debt		<u>11,699</u>	<u>11,699</u>	<u>-100%</u>
Total Expenses	<u>7,766,326</u>	<u>7,650,429</u>	<u>(115,897)</u>	<u>-1%</u>
Increase (Decrease) in Net Assets Before Transfers	130,225	284,143	153,918	118%
Transfers	226,000		(226,000)	-100%
Extraordinary Item--Loss Due to Embezzlement		<u>(408,690)</u>	<u>(408,690)</u>	<u>-100%</u>
Change in Net Assets	356,225	(124,547)	(480,772)	(1)
Beginning Net Assets--Restated	<u>5,717,158</u>	<u>6,073,383</u>	<u>356,225</u>	<u>6%</u>
Ending Net Assets--Restated	<u>\$ 6,073,383</u>	<u>\$ 5,948,836</u>	<u>\$ (124,547)</u>	<u>-2%</u>

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2005 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and, additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. Beginning in 2004, the property tax revenue of the governmental activities increased due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund County Property Tax Collections from December to July over a three year period. During that time period, the County will levy 33% more each calendar year and set aside that amount into the Revenue Sharing Reserve Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

General government revenues and expenses decreased from 2005 to 2006 which was mainly due to a decrease in State and Federal grants for homeland security and in 2005 the Park and Recreation fund had received a grant to purchase a snowmobile trail groomer. The county also experienced an extraordinary loss of \$408,690 in general government revenues due to an embezzlement by the prior county treasurer.

	Business-Type Activities <u>2005</u>	Business-Type Activities <u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 262,514	\$ 290,848	\$ 28,334	11%
General Revenues				
Unrestricted Investment Earnings	170,388	123,853	(46,535)	-27%
Other Revenue	<u>2,275</u>	<u></u>	<u>(2,275)</u>	<u>-100%</u>
Total Revenues	<u>435,177</u>	<u>414,701</u>	<u>(20,476)</u>	<u>-5%</u>
Program Expenses				
Delinquent Tax Revolving Fund	2,714	4,803	2,089	100%
Delinquent Tax Property Sales	5,325	56,430	51,105	100%
Non-Major Enterprise Funds	<u>67,748</u>	<u>73,300</u>	<u>5,552</u>	<u>8%</u>
Total Expenses	<u>75,787</u>	<u>134,533</u>	<u>58,746</u>	<u>78%</u>
Increase in Net Assets Before Transfers and Extraordinary Items	359,390	280,168	(79,222)	-22%
Transfers	(226,000)		226,000	-100%
Extraordinary Items	<u></u>	<u>(797,839)</u>	<u>(797,839)</u>	<u>-100%</u>
Increase (Decrease) in Net Assets	133,390	(517,671)	(651,061)	-488%
Beginning Net Assets--Restated	<u>3,915,953</u>	<u>4,050,679</u>	<u>134,726</u>	<u>3%</u>
Ending Net Assets--Restated	<u>\$4,049,343</u>	<u>\$3,533,008</u>	<u>\$ (516,335)</u>	<u>-13%</u>

Unrestricted investment earnings decreased due to misappropriated funds which caused a reduction in funds available for investment. The County had an extraordinary loss of \$797,839 in the Delinquent Tax Funds due to the embezzlement by the prior county treasurer.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the county completed calendar year 2006, the governmental funds reported combined fund balances of \$2,367,638, a decrease of \$118,902. The net changes are summarized below:

	Governmental Activities 2005	Governmental Activities 2006	Amount Difference	Percentage Difference
Revenues				
Taxes and Penalties	\$ 4,561,751	\$ 4,789,718	\$ 227,967	5%
Licenses and Permits	5,772	4,023	(1,749)	-30%
Federal Grants	414,020	485,279	71,259	17%
State Grants	782,790	461,502	(321,288)	-41%
Charges for Services	1,673,459	1,624,478	(48,981)	-3%
Contributions From Local Units	4,524	2,395	(2,129)	-47%
Fines and Forfeits	82,295	99,081	16,786	20%
Interest and Rentals	103,117	173,026	69,909	68%
Donations	16,267		(16,267)	-100%
Loan Repayments	95,240		(95,240)	-100%
Other Revenue Loss Due to Embezzlement		(408,690)	(408,690)	-100%
Other Revenue	149,960	231,474	81,514	54%
Total Revenues	7,889,195	7,462,286	(426,909)	-5%
Expenses				
General Government	2,180,968	2,281,624	100,656	5%
Public Safety	2,886,241	3,709,217	822,976	29%
Public Works	7,660	28,365	20,705	270%
Health and Welfare	1,614,287	530,783	(1,083,504)	-67%
Community and Economic Development		261,821	261,821	-100%
Recreation and Cultural	668,777	424,285	(244,492)	-37%
Other	135,831	189,523	53,692	40%
Capital Outlay	155,696	91,478	(64,218)	-41%
Debt Service				
Principal	26,495	51,913	25,418	96%
Interest and Fiscal Fees	5,661	11,699	6,038	107%
Total Expenditures	7,681,616	7,580,708	(100,908)	-1%
Excess of Revenues Over (Under) Expenditures	207,579	(118,422)	(326,001)	-157%
Other Financing Sources (Uses)				
Installment Purchase Proceeds			-	-100%
Interfund Transfers In (Out)				
Primary Government	940,846	244,078	(696,768)	-74%
Primary Government (Out)	(714,846)	(244,078)	470,768	-66%
Total Other Financing Sources (Uses)	226,000	-	(226,000)	-100%
Beginning Fund Balance	2,052,961	2,485,205	432,244	21%
Ending Fund Balance	\$ 2,486,540	\$ 2,366,783	\$ (119,757)	-5%

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

The financial statements for the County's major funds are detailed in Exhibits C and D, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2006 include the General Fund, Ambulance Fund, Revenue Sharing Reserve Fund, Delinquent Tax Revolving Fund and the Delinquent Tax Property Sales Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund.

The most significant services paid by the County's governmental funds are general government and public safety, which incurred expenses of \$2,281,624 and \$3,709,217, respectively, during 2006.

The County's total governmental revenues decreased by approximately 5%. Most of the decrease was due to a reduction in State grant revenue and revenues diverted by the prior county treasurer by embezzlement.

Expenses decreased by approximately 1%, mainly due to the County no longer accounting for State Social Welfare Fund expenditures and a decrease in capital outlay purchases.

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	Business-Type Activities 2005	Business-Type Activities 2006	Amount Difference	Percentage Difference
Operating Revenues				
Interest and Penalties on Taxes	\$ 92,607	\$ 101,087	\$ 8,480	9%
State Operating Grants		13,054	13,054	100%
Charges for Services	164,582	173,206	8,624	5%
Other	7,600	16,555	8,955	118%
Total Operating Revenues	264,789	303,902	39,113	15%
Operating Expenses				
Salaries and Wages		3,274	3,274	-100%
Materials and Supplies		93,402	93,402	-100%
Contracted Services		11,564	11,564	-100%
Insurance		16,136	16,136	-100%
Repairs		10,157	10,157	-100%
Other	75,787		(75,787)	100%
Total Operating Expenses	75,787	134,533	58,746	78%
Net Income (Loss) From Operations	189,002	169,369	(19,633)	-10%
Nonoperating Revenue (Expenses)				
Interest Income	170,388	110,799	(59,589)	-35%
Other Revenue Loss Due to Embezzlement		(797,839)	(797,839)	-100%
Total Nonoperating Revenues (Expenses)	170,388	(687,040)	(857,428)	-503%
Net Income (Loss) Before Operating Transfers	359,390	(517,671)	(877,061)	-244%
Transfers In--Primary Government	1,132			0%
Transfers (Out)--Primary Government	(227,132)			0%
Net Income (Loss)	133,390	(517,671)	(651,061)	-488%
Beginning Net Assets	3,915,953	4,049,343	133,390	3%
Restatement to Beginning Net Assets	-	1,336	1,336	100%
Ending Net Assets	\$ 4,049,343	\$ 3,533,008	\$ (516,335)	-13%

COUNTY OF ALCONA

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's business-type activities consist of the Inmate Welfare Fund operating on sales of amenities to inmates, the Delinquent Tax Property Sales Fund which operates on charges for services revenue, and the Delinquent Tax Revolving Fund which represents collection of delinquent taxes from various years. Most of the revenue increase was the result of a State grant for the fair board. The net income loss was mainly due to the embezzlement committed by the prior county treasurer.

Delinquent Tax Revolving Fund Transfers Out decreased by \$227,132 from the prior year. The Delinquent Tax Revolving Fund net assets decreased by \$563,808 because of the diversion of tax revenues based on the illegal actions of the former Treasurer. The County realized a 13% decrease in the net assets of its business-type activities for 2006.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's General Fund revenue budget was increased by \$22,000 (1/2% above the original budget) during calendar year 2006. Actual General Fund revenue and other financing sources totaled \$3,992,266, which was \$528,544 lower than the final amended budget. The largest variances were decreases in anticipated State grants, decrease in transfers and the loss due to the diversion of revenues.

The County's expenditure budget was increased by \$22,000 (1/2% over the original budget) during calendar year 2006. Actual General Fund expenditures and other financing sources totaled \$4,450,656, which was \$71,772 below the final amended budget. The largest variances were decreases in anticipated general government and other expenditures.

Capital Asset and Debt Administration

At the end of 2006, the County had \$2,510,018 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included three police vehicles. These additions totaled \$91,478.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current calendar year, the County had total debt outstanding of \$680,661 in its governmental activities which includes vested employee benefits of \$382,246.

Subsequent Event

The prior County Treasurer was removed from office on November 22, 2006 by the Board of Commissioners, due to his failure to provide a written report explaining a series of financial transactions involving funds of the county. He has since been charged and plead guilty to embezzling \$1,237,700.00 of county funds. This loss will have a serious impact on the services the county provides.

COUNTY OF ALCONA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factor in preparing the 2007 calendar year budget:

Multiple factors were considered in preparation of the 2007 budget. A slower and recessed economy caused the county to recognize that dollars would have to be spent more sparingly and spread further. Recognizing that health care cost have been rising dramatically, the county shopped and found a health care plan providing for a savings to the county yet meeting the contractual responsibilities for coverage. A basic 20% reduction of nonpayroll related items was instituted across the board with the exception of existing contractual commitments. Building activity has slowed considerably, causing the county to recognize a reduction in rising SEV in the county. A search was made and continues for an opportunity to fund activities through grant assistance.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Alcona County Board of Commissioners at 106 North Fifth Street, Harrisville, Michigan 48740.

ALCONA COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT A

	PRIMARY GOVERNMENT			COMPONENT UNIT
	Governmental Activities	Business-Type Activities	Total	Road Commission
<u>ASSETS</u>				
Current Assets				
Cash, Cash Equivalents and Investments	\$ 1,909,628	\$ 621,289	\$ 2,530,917	\$ 753,853
Receivables (Net)				
Taxes--Current Levy	2,061,424		2,061,424	
Taxes--Delinquent		597,461	597,461	
Special Assessments			-	24,358
Accounts	1,735,743		1,735,743	3,156
Due From Local Units of Government	195,139		195,139	349,805
Due From Other Counties	-		-	
Due From State	220,848		220,848	431,195
Internal Balances	(652,813)	2,588,231	1,935,418	
Inventories			-	297,472
Total Current Assets	5,469,969	3,806,981	9,276,950	1,859,839
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	2,510,018		2,510,018	10,125,212
Total Assets	7,979,987	3,806,981	11,786,968	11,985,051
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	112,437	1,990	114,427	40,680
Due to Other Units of Government	-	68,758	68,758	20,000
Due to State	4,473	199,383	203,856	
Deposits Payable	522	3,842	4,364	
Accrued Liabilities	48,000		48,000	28,285
Noncurrent Liabilities				
Advances From State			-	214,084
Deferred Revenue	1,184,282		1,184,282	433,124
Bonds Payable--Due Within One Year	20,000		20,000	
Bonds Payable--Due in More Than One year	175,000		175,000	
Installment Loans Payable--Due Within One Year	31,038		31,038	284,728
Installment Loans Payable--Due in More Than One Year			-	1,145,933
Postclosure Landfill Costs--Due Within One Year	4,276		4,276	
Postclosure Landfill Costs--Due in More Than One Year	68,877		68,877	
Vested Employee Benefits Payable--Due Within One Year	382,246		382,246	
Vested Employee Benefits Payable--Due in More Than One Year			-	194,806
Total Liabilities	2,031,151	273,973	2,305,124	2,361,640
<u>NET ASSETS</u>				
Investment in Capital Assets--Net of Related Debt	2,283,980		2,283,980	8,689,351
Restricted for				
Special Purposes	2,292,079		2,292,079	
County Roads			-	934,060
Unrestricted	1,372,777	3,533,008	4,905,785	
Total Net Assets	\$ 5,948,836	\$ 3,533,008	\$ 9,481,844	\$ 9,623,411

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 2,295,864	\$ 554,613	\$ 335,017		\$ (1,406,234)		\$ (1,406,234)	
Public Safety	2,911,009	692,097	202,886		(2,016,026)		(2,016,026)	
Public Works	28,365	15,076			(13,289)		(13,289)	
Health and Welfare	1,466,505	623,361	64,401		(778,743)		(778,743)	
Community and Economic Development	262,527	26,177	282,601		46,251		46,251	
Recreation and Culture	484,937	95,725	64,558		(324,654)		(324,654)	
Other	189,523	2,816			(186,707)		(186,707)	
Interest on Long-Term Debt	11,699				(11,699)		(11,699)	
Total Governmental Activities	7,650,429	2,009,865	949,463	\$ -	(4,691,101)	\$ -	(4,691,101)	
Business-Type Activities								
Delinquent Tax Revolving Fund	4,803	149,078	-			144,275	144,275	
Delinquent Tax Property Sales	56,430	81,178				24,748	24,748	
Non-Major Enterprise Funds	73,300	60,592				(12,708)	(12,708)	
Total Business-Type Activities	134,533	290,848	-	-	-	156,315	156,315	
Total Primary Government	\$ 7,784,962	\$ 2,300,713	\$ 949,463	\$ -	\$ (4,691,101)	\$ 156,315	\$ (4,534,786)	
Component Unit								
Road Commission	\$ 3,195,911	\$ 483,978	\$ 2,546,965	\$ 2,093,634				\$ 1,928,666
Total Component Units	\$ 3,195,911	\$ 483,978	\$ 2,546,965	\$ 2,093,634	\$ -	\$ -	\$ -	\$ 1,928,666
General Revenues								
Property Taxes					\$ 4,789,718		\$ 4,789,718	
Interest Earnings						\$ 110,799	110,799	
Unrestricted Investment Earnings					167,993	13,054	181,047	
Rentals					5,032		5,032	
Other Revenues					12,501		12,501	\$ 113,477
Special Item--Loss on Disposal of Capital Assets							-	(5,578)
Extraordinary Item--Loss Due to Misappropriation of Assets					(408,690)	(797,839)	(1,206,529)	
Total General Revenues--Special Items and Transfers					4,566,554	(673,986)	3,892,568	107,899
Change in Net Assets					(124,547)	(517,671)	(642,218)	2,036,565
Net Assets--Beginning					6,074,718	4,049,344	10,124,062	7,586,846
Restatement to Net Assets					(1,335)	1,335	-	
Restated Net Assets--Beginning					6,073,383	4,050,679	10,124,062	7,586,846
Net Assets--Ending					\$ 5,948,836	\$ 3,533,008	\$ 9,481,844	\$ 9,623,411

The Notes to Financial Statements are an integral part of this statement.

**ALCONA COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2006**

EXHIBIT C

	General Fund	Ambulance Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash, Cash Equivalents and Investments	\$ 3,263	\$ 837	\$ 877,142	\$ 1,028,386	\$ 1,909,628
Receivables					
Taxes--Current Levy	965,178	672,456		423,790	2,061,424
Accounts	45,128	62,830		50,313	158,271
Patient Receivables		321,665			321,665
Loans				1,255,807	1,255,807
Due From Local Units of Government	19,139			176,000	195,139
Due From State	47,827			173,021	220,848
Due From Other Funds--Primary Government	3,308,730	54,321	1,754,284	136,661	5,253,996
Advances to Other Funds--Primary Government				40,000	40,000
Total Assets	<u>\$ 4,389,265</u>	<u>\$ 1,112,109</u>	<u>\$ 2,631,426</u>	<u>\$ 3,283,978</u>	<u>\$ 11,416,778</u>
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities					
Accounts Payable	\$ 65,371	\$ 9,312		\$ 37,754	\$ 112,437
Due to Other Funds--Primary Government	4,665,245	162,000	\$ 510,427	569,137	5,906,809
Due to State	4,473			-	4,473
Accrued Liabilities	24,530	14,589		8,881	48,000
Escrow Payable				522	522
Long-Term Advance				40,000	40,000
Deferred Revenue--Taxes	88,036	672,456		423,790	1,184,282
Deferred Revenue--Other		321,665		1,431,807	1,753,472
Total Liabilities	<u>4,847,655</u>	<u>1,180,022</u>	<u>510,427</u>	<u>2,511,891</u>	<u>9,049,995</u>
Fund Equity					
Fund Balances					
Reserved for					
Ambulance Services		(67,913)			(67,913)
Debt Service				23,875	23,875
Capital Projects				(9,058)	(9,058)
Non-Major Special Revenue Programs				615,578	615,578
Long-Term Advances to Other Funds				40,000	40,000
Designated for					
Unreserved--Undesignated	(458,390)		2,120,999	101,692	1,764,301
Total Fund Equity	<u>(458,390)</u>	<u>(67,913)</u>	<u>2,120,999</u>	<u>772,087</u>	<u>2,366,783</u>
Total Liabilities and Fund Equity	<u>\$ 4,389,265</u>	<u>\$ 1,112,109</u>	<u>\$ 2,631,426</u>	<u>\$ 3,283,978</u>	<u>\$ 11,416,778</u>

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS TO NET ASSETS OF
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
December 31, 2006

Fund Balances--Total Governmental Funds	\$ 2,366,783
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Amounts reported for governmental activities in the Statement of
 Net Assets are different because:

Capital assets used in governmental activities are not financial
 resources and, therefore, are not reported in the funds.

Add--Capital Assets	5,785,728
Deduct--Accumulated Depreciation	<u>(3,275,710)</u>

Net Capital Asset Addition	<u>2,510,018</u>
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Revenues that do not provide current financial resources are
 not reported as revenue in the funds.

Add--Deferred Revenues for Loans Receivable	1,255,807
Add--Deferred Revenues for Ambulance Patient Receivables	321,665
Add--Deferred Revenues for Sewer Debt	176,000

Certain liabilities, such as compensated absences, are not due and
 payable in the current period. Therefore, they are not reported
 in the funds' statement.

Deduct--Long-Term Debt	(299,191)
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(382,246)</u>

Internal service funds are used by management to charge the costs of certain
 activities such as insurance and telephone service to individual governmental funds.
 The assets and liabilities of the internal service funds are included in governmental
 activities in the Statement of Net Assets.

Net Assets of Governmental Activities	<u><u>\$ 5,948,836</u></u>
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The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT D

	General Fund	Ambulance Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and Penalties	\$ 2,874,636	\$ 634,634	\$ 877,142	\$ 403,306	\$ 4,789,718
Licenses and Permits	4,023			-	4,023
Federal Grants	114,704			370,575	485,279
State Grants	275,283	-		186,219	461,502
Contributions From Local Units	2,395				2,395
Charges for Services	449,893	386,934		787,651	1,624,478
Fines and Forfeitures	21,975			77,106	99,081
Interest and Rentals	97,944	1,318		73,764	173,026
Other Revenue Loss Due to Misappropriation of Assets	(151,000)	(171,690)		(86,000)	(408,690)
Other Revenue	103,327	2,354		125,793	231,474
Total Revenues	3,793,180	853,550	877,142	1,938,414	7,462,286
Expenditures					
Current					
General Government	2,081,334			200,290	2,281,624
Public Safety	1,975,208	901,092		832,917	3,709,217
Public Works	-			28,365	28,365
Health and Welfare	193,091			337,692	530,783
Community and Economic Development	-			261,821	261,821
Recreation and Cultural				424,285	424,285
Other	189,523			-	189,523
Capital Outlay	-			91,478	91,478
Debt Service					
Principal	-	30,657		21,256	51,913
Interest and Fiscal Fees	-	1,499		10,200	11,699
Total Expenditures	4,439,156	933,248	-	2,208,304	7,580,708
Excess of Revenues Over (Under) Expenditures	(645,976)	(79,698)	877,142	(269,890)	(118,422)
Other Financing Sources (Uses)					
Interfund Transfers In					
Primary Government	199,085			44,993	244,078
Interfund Transfers (Out)					
Primary Government	(11,500)	-	(199,085)	(33,493)	(244,078)
Total Other Financing Sources (Uses)	187,585	-	(199,085)	11,500	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(458,391)	(79,698)	678,057	(258,390)	(118,422)
Fund Balance--January 1, 2006	1	11,785	1,442,942	1,030,477	2,485,205
Fund Balance--December 31, 2006	\$ (458,390)	\$ (67,913)	\$ 2,120,999	\$ 772,087	\$ 2,366,783

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT D-1

Net Change in Fund Balances--Total Governmental Funds \$ (118,422)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Revenues in the Statement of Activities, that do not provide current financial
resources, are not reported as revenues in the funds.

Change in Deferred Revenue Housing Commission Loans	16,237
Change in Deferred Revenue Ambulance Patient Receivables	84,359
	(37,000)

Governmental funds report capital outlays as expenditures. However,
in the Statement of Activities, the costs of those assets are allocated over
their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	91,478
Deduct--Depreciation Expense	(264,403)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	48,657
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Some expenses reported in the Statement of Activities do not require the use
of current financial resources. Therefore, they are not reported as
expenditures in the funds.

Subtract--Increase in the Accrual of Compensated Absences	51,291
Add--Decrease in Post-Closure Landfill Costs	3,256

Change in Net Assets of Governmental Activities	<u>\$ (124,547)</u>
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The Notes to Financial Statements are an integral part of this statement.

**ALCONA COUNTY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2006**

EXHIBIT E

	BUSINESS-TYPE ACTIVITIES			
	Delinquent Tax Revolving	Delinquent Tax Property Sales	Non-Major Enterprise Funds	Total Enterprise Funds
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 391,823	\$ (93,453)	\$1,896	\$ 300,266
Investments	4,597	311,985	4,441	321,023
Delinquent Taxes Receivable	597,461			597,461
Due From Other Funds	2,550,575	400,000		2,950,575
Total Assets	\$ 3,544,456	\$ 618,532	\$6,337	\$ 4,169,325
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable		\$ 1,990		\$ 1,990
Due to Other Units of Government	\$ 68,758			68,758
Due to Other Funds	361,844		\$ 500	362,344
Due to State	199,383			199,383
Deposits Payable			3,842	3,842
Total Liabilities	629,985	1,990	4,342	636,317
<u>NET ASSETS</u>				
Unrestricted	2,914,471	616,542	1,995	3,533,008
Total Net Assets	\$ 2,914,471	\$ 616,542	\$1,995	\$ 3,533,008

The Notes to Financial Statements are an integral part of this statement.

ALCONA COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT F

	BUSINESS-TYPE ACTIVITIES			
	Delinquent Tax Revolving	Delinquent Tax Property Sales	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues				
Charges for Services	\$ 47,991	\$ 81,178	\$ 44,037	\$ 173,206
Interest on Delinquent Taxes	101,087			101,087
Other Receipts			16,555	16,555
Total Operating Revenues	149,078	81,178	60,592	290,848
Operating Expenses				
Salaries and Wages			3,274	3,274
Materials and Supplies	4,803	56,430	32,169	93,402
Contracted Services			11,564	11,564
Insurance			16,136	16,136
Repairs			10,157	10,157
Total Operating Expenses	4,803	56,430	73,300	134,533
Operating Income (Loss)	144,275	24,748	(12,708)	156,315
Nonoperating Revenues (Expenses)				
Other Revenue Loss Due to Misappropriation of Assets	(797,839)			(797,839)
State Operating Grants			13,054	13,054
Interest Earned on Investments	89,756	20,730	313	110,799
Total Nonoperating Revenues (Expenses)	(708,083)	20,730	13,367	(673,986)
Change in Net Assets	(563,808)	45,478	659	(517,671)
Total Net Assets--January 1, 2006	3,478,279	571,064	1,336	4,050,679
Total Net Assets--December 31, 2006	\$ 2,914,471	\$ 616,542	\$ 1,995	\$3,533,008

The Notes to Financial Statements are an integral part of this statement

ALCONA COUNTY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT G

	BUSINESS-TYPE ACTIVITIES			
	Delinquent Tax Revolving	Delinquent Tax Property Sales	Non-Major Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 47,991	\$ 81,178	\$ 44,037	\$ 173,206
Other Cash Receipts			16,555	16,555
Interest on Delinquent Taxes	101,087			101,087
Delinquent Taxes Purchased	(1,320,209)			(1,320,209)
Delinquent Taxes Collected	959,698			959,698
Cash Payments to Employees for Services and Benefits			(3,274)	(3,274)
Cash Payments to Suppliers for Goods and Services	(4,803)	(54,440)	(70,026)	(129,269)
Net Cash Provided by Operating Activities	(216,236)	26,738	(12,708)	(202,206)
Cash Flows From Noncapital Financing Activities				
State Grants			13,054	13,054
Advance To Other Funds--Primary	50,575			50,575
Due From Other Funds--Primary	(2,530,575)	(400,000)		(2,930,575)
Due to Other Funds--Primary	293,874			293,874
Due to State	199,383			199,383
Due to Other Units of Government	68,758			68,758
Net Cash Provided by Noncapital Financing Activities	(1,917,985)	(400,000)	13,054	(2,304,931)
Cash Flows From Investing Activities				
Interest on Cash Equivalents	107,316	20,730	314	128,360
Sale or (Purchase) of Investments	3,216,565	259,079	13	3,475,657
Loss Due to Cash Shortage	(797,839)			(797,839)
Net Cash Provided by Investing Activities	2,526,042	279,809	327	2,806,178
Net Increase (Decrease) in Cash and Cash Equivalents	391,821	(93,453)	673	299,041
Cash and Cash Equivalents at Beginning of Year	-	-	1,223	1,223
Cash and Cash Equivalents at End of Year	\$ 391,821	\$ (93,453)	\$ 1,896	\$ 300,264
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 144,275	\$ 24,748	\$ (12,708)	\$ 156,315
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
(Increase) Decrease in Delinquent Taxes Receivable	(360,511)			(360,511)
Increase (Decrease) in Accounts Payable		1,990		1,990
Net Cash Provided by Operating Activities	\$ (216,236)	\$ 26,738	\$ (12,708)	\$ (202,206)

The Notes to Financial Statements are an integral part of this statement

**ALCONA COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2006**

EXHIBIT H

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 2,994,319
Investments	<u>174</u>
Total Assets	<u><u>\$ 2,994,493</u></u>
<u>LIABILITIES</u>	
Liabilities	
Due to Other Funds	\$ 1,935,418
Due to State of Michigan	643,519
Due to Other Units of Government	17,346
Undistributed Tax Collections	316,108
Bonds Restitutions and Payable to Individuals	53,659
Other Trust Payable	(16,619)
Other Payroll Liabilities	8,058
Undistributed Penal Fines	<u>37,004</u>
Total Liabilities	<u><u>\$ 2,994,493</u></u>

The Notes to the Financial Statements are an integral part of this statement.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Alcona County conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

REPORTING ENTITY

Alcona County, Michigan, was organized May 8, 1869 and covers an area of 679 square miles divided into 11 townships, 1 city and 1 village. The county is governed by an elected five member board of commissioners and provides services to its more than 11,719 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Alcona County (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units, discussed below, are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

Road Commission--The county appoints all members of the governing board of the Road Commission. The Road Commission deposits receipts with the county. The Road Commission also has investments through the county. A complete financial statement can be obtained from the Alcona County Road Commission, 301 North Lake Street, Lincoln, Michigan 48742.

JOINT OPERATIONS

District Health Department--The counties of Ogemaw, Oscoda, Iosco and Alcona participate jointly in the operation of the District Health Department. The board is appointed and operates autonomously to provide various health services to residents in these counties. The financial operations of the District Health Department are recorded in the records of the Ogemaw County Health Fund.

The funding formula approved by the member counties is based pro rata on each unit's population and equalized valuation to the district's total population and valuation. Alcona County's appropriation to the District Health Department for 2006 was \$90,038.

Complete financial statements for the District Health Department can be obtained from the District's administrative offices at 630 Progress Street, West Branch, Michigan 48661.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Ambulance Service Fund accounts for the collection of a separate tax millage and user fees that are used to fund the operations of ambulance services.

The Revenue Sharing Reserve Fund accounts for revenue from the December tax levy.

The government reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for the purchase of delinquent taxes from other local taxing units.

The Delinquent Tax Property Sales Fund accounts for the sales and costs related to the delinquent tax reversion process.

Additionally, the County reports the following fund type:

Agency funds are used to account for assets held for other governments in an agency capacity, including tax collections.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the delinquent tax revolving and the delinquent tax property sales enterprise funds are interest collected on delinquent taxes and the sale of foreclosed property. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash, Cash Equivalents, and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with maturity of three months or less when acquired are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value.

Taxes Receivable--Current

The county's property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

Although the county's 2006 ad valorem taxes are levied and collectible on December 1st, it is the county's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the county operations.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2005 State equalized valuation of Alcona County amounted to \$891,907,599 and the taxable valuation is \$623,677,617, on which ad valorem taxes of 4.2597 mills were approved and levied for county operating purposes, .2442 mills for senior citizens programs, .4753 mills for county library, .9893 mills for county ambulance service, and .1483 mills for HUNT. The 2006 current tax levy is recognized as property taxes receivable in the respective funds with an offsetting credit to deferred revenue. However, property taxes receivable and deferred revenue in the General Fund have been reduced by \$1,076,227 because \$199,085 and \$877,142 of the 2006 county operating tax levy was recorded as 2006 revenue in the General Fund and Revenue Sharing Reserve Fund, respectively, in accordance with Public Act 357 of 2004 which provided a funding mechanism to serve as a substitute for revenue sharing payments from the state to the county. This substitute funding mechanism involves a gradual shift, over three years, of county property tax millage from a winter tax levy to a summer tax levy.

Taxes Receivable--Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes levied prior to 2006. The delinquent real property taxes may be summarized as follows:

<u>Tax Year</u>	<u>Personal Property Tax</u>	<u>Real Property Tax</u>	<u>Total Amount</u>
1996		\$ 994.55	\$ 994.55
1997		937.04	937.04
1998		1,257.60	1,257.60
1999		998.71	998.71
2000	\$ 7,094.56	1,584.17	8,678.73
2001	4,161.75	2,872.66	7,034.41
2002	16,687.98	5,996.90	22,684.88
2003	15,045.25	1,708.84	16,754.09
2004	22,560.39	36,959.06	59,519.45
2005	<u>3,209.27</u>	<u>475,391.90</u>	<u>478,601.17</u>
Total	<u>\$ 68,759.20</u>	<u>\$ 528,701.43</u>	<u>\$ 597,460.63</u>

From 2000 to 2005, the county had the policy of purchasing the delinquent personal property taxes from the local unit.

Receivables and Payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due To/From Other Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances to Other Funds

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventory

Inventories of expendable supplies have not been recorded and the amount of any such inventories is not considered material. The cost of such inventories has been treated as an expenditure at the time of purchase.

Inventory for the Road Commission is valued at cost as determined on the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the County of Alcona), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$1,000 for the Road Commission) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Infrastructure assets for the Road Commission include all roads and bridges acquired subsequent to January 1, 2005. Infrastructure assets acquired prior to that date are not reported in the basic financial statements.

Major outlays for capital assets and improvements are capitalized as projects when constructed. Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Building and Improvements	30 - 50 years
Land Improvements	20 years
Equipment	4 - 20 years
Fixtures and Furniture	15 - 20 years
Vehicles	3 - 5 years
Infrastructure--Roads	8 - 30 years
Infrastructure--Bridges	12 - 50 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Compensated Absences

Vacation and sick day policies for county employees are determined by union contracts. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General Fund and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The General Fund budget is adopted at the activity level and control is exercised at that level. The special revenue funds' budgets are adopted at the functional level and control is exercised at that level. The county board of commissioners has authorized the county treasurer to make budget transfers between line items when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval. All budget appropriations lapse at year end.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The county's actual expenditures for the funds budgeted have been shown on an activity basis for the General Fund and function basis for special revenue funds. The approved budgets of the county were adopted at the activity level for the General Fund and at the function level for special revenue funds.

During the fiscal year ended December 31, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets for special revenue funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Governmental			
General Fund			
General Government	\$ 2,053,052	\$ 2,081,334	\$ (28,282)
Health and Welfare	189,592	193,091	(3,499)
Other	113,625	189,523	(75,898)
Special Revenue Funds			
Revenue Sharing Reserve	198,000	199,085	(1,085)
Parks and Recreation	26,925	26,984	(59)
Local Correction Officers Training	3,000	5,771	(2,771)
Library Memorial	1,000	5,592	(4,592)
Reiker Memorial	500	902	(402)
Housing Commission Revolving	170,300	178,413	(8,113)
Harbortown Marketplace	32,300	35,661	(3,361)
Economic Development Commission	12,860	47,747	(34,887)
Victim Services	-	8,959	(8,959)
Probate Child Care	111,275	161,771	(50,496)
Veterans Trust	1,500	2,127	(627)
Public Guardian	23,150	29,048	(5,898)

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

DEFICIT EQUITY

As of December 31, 2006 funds having deficit equity balances are as follow:

<u>Fund</u>	<u>Deficit Equity</u>
General Fund	\$ 458,390
Special Revenue Funds	
County Parks	2,031
Ambulance	67,913
Alcona County EDC	4,892
Child Care Probate	103,301
Probate Public Guardian	9,007
Capital Projects Funds	
Equipment and Replacement	94,054
Capital Projects Fund	9,058
Enterprise Funds	
Inmate Welfare	<u>440</u>
Total Deficits Primary Government	<u><u>\$ 749,086</u></u>

The deficits in the Special Revenue and Capital Project Funds occurred due to the General Fund being unable to provide additional subsidies. The deficits in the General Fund and Inmate Welfare Funds occurred due to the inappropriate movement of cash through electronic fund transfers.

It is expected that the transfer of funds will not occur in subsequent years. The county board of commissioners is working on a plan to eliminate the deficits.

Investments

Investments were made to unauthorized types of investments, contrary to Public Act 196 of 1997, as amended, and the county's investment policy.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county has designated various financial institutions for deposit of the county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

At year end, Alcona County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Carrying Amounts</u>				
<u>Cash and Deposits</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 59,554	\$ (1,486,109)	\$2,994,319	\$1,567,764	\$ 251
Investments	<u>1,850,074</u>	<u>2,107,398</u>	<u>174</u>	<u>3,957,646</u>	<u>753,602</u>
Total	<u>\$1,909,628</u>	<u>\$ 621,289</u>	<u>\$2,994,493</u>	<u>\$5,525,410</u>	<u>\$ 753,853</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,565,012	\$ 251
Investments in Securities, Mutual Funds and Similar Vehicles	3,957,646	753,602
Petty Cash and Cash on Hand	<u>2,752</u>	
Total	<u>\$ 5,525,410</u>	<u>\$ 753,853</u>

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

The bank balance of the primary government's deposits is \$1,713,614, of which \$464,026 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$111,396 of which \$100,000 was covered by Federal depository insurance.

The Michigan Class pool is a non-rated pool so disclosures are not required. The Governmental Money Market Fund from Bank One has not been rated.

Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The county has limited its investments to long term certificates of deposit and money markets. However, the treasurer invested in items that were not allowed by the board.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the county manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the county contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE C--CASH AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the county's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--RECEIVABLES

Receivables as of year end for the primary government's individual major and aggregate nonmajor funds, and component units, including the applicable allowances for uncollectible accounts, are as follows:

	Primary Government					
	General Fund	Ambulance Fund	Delinquent Tax Revolving Fund	Non-Major Funds	Total	Component Units
Taxes	\$ 965,178	\$ 672,456	\$ 597,461	\$ 423,790	\$ 2,658,885	
Accounts	45,128	384,495		50,313	479,936	\$ 3,156
Loans Receivable				1,255,807	1,255,807	
Notes					-	
Due From State	47,827				47,827	431,195
Due From Federal						
Due From Other						
Governmental Units	19,139			176,000	195,139	349,805
Total	<u>\$ 1,077,272</u>	<u>\$ 1,056,951</u>	<u>\$ 597,461</u>	<u>\$ 1,905,910</u>	<u>\$ 4,637,594</u>	<u>\$ 784,156</u>

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE D--RECEIVABLES (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes--Current Levy	\$ 1,184,282	
Patient Receivables	321,665	
Due From City of Harrisville--Sewer (Note 1)	176,000	
Long-Term Notes Receivable	<u>1,255,807</u>	
Total	<u>\$ 2,937,754</u>	<u>\$ -</u>

NOTE E--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	\$ 1,145,989	Ambulance	\$ 162,000
		Revenue Sharing Reserve	510,427
		Non-Major Governmental Funds	473,562
Revenue Sharing Reserve	1,754,284	General Fund	1,754,284
Non-Major Governmental Funds	55,961	General Fund	10,961
		Non-Major Governmental Funds	45,000
General Fund	242,573	Delinquent Tax Revolving	361,844
Ambulance Fund	54,321	Non-Major Enterprise Fund	500
Non-Major Governmental Funds	65,450		
Delinquent Tax Property Sales	400,000	General Fund	2,900,000
Delinquent Tax Revolving	2,550,575	Non-Major Governmental Funds	50,575
General Fund	1,920,168	Trust and Agency	1,935,418
Non-Major Governmental Funds	<u>15,250</u>		
	<u>\$ 8,204,571</u>		<u>\$ 8,204,571</u>

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE E--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS (Continued)

The long-term advances to other funds, which represent long-term interfund receivables and payables that are not available to finance current operations, are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances To/From Other Funds			
Non-Major Governmental		Non-Major Governmental	
Discretionary Fund	<u>\$ 40,000</u>	Park Fund	<u>\$ 40,000</u>
Total Primary Government	<u><u>\$ 40,000</u></u>	Total Primary Government	<u><u>\$ 40,000</u></u>

The 2006 operating transfers from Exhibits D can be summarized as follows for the primary government:

Interfund Transfers

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General	\$ 199,085	General	\$ 11,500
Non-Major Governmental	44,993	Revenue Sharing Reserve	199,085
		Non-Major Governmental	<u>33,493</u>
Total Primary Government	<u><u>\$ 244,078</u></u>		<u><u>\$ 244,078</u></u>

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land	\$ 175,500			\$ 175,500
Subtotal	175,500	\$ -	\$ -	175,500
Capital Assets Being Depreciated				
Land Improvements	130,807			130,807
Buildings	3,870,230			3,870,230
Equipment	996,281	30,660		1,026,941
Furniture and Fixtures	48,538			48,538
Vehicles	472,894	60,818	102,045	431,667
Total	5,518,750	91,478	102,045	5,508,183
Less Accumulated Depreciation				
Land Improvements	24,970	6,540		31,510
Buildings	1,954,647	81,423		2,036,070
Equipment	625,531	77,677		703,208
Furniture and Fixtures	15,810	2,874		18,684
Vehicles	390,350	95,889	102,045	384,194
Total	3,011,308	264,403	102,045	3,173,666
Net Capital Assets Being Depreciated	2,507,442	(172,925)	-	2,334,517
Total Net Capital Assets	<u>\$ 2,682,942</u>	<u>\$ 91,478</u>	<u>\$ 264,403</u>	<u>\$ 2,510,017</u>

Depreciation expense was charged to programs of the primary government as follows:

<u>Governmental Activities</u>	<u>Amount</u>
General Government	\$ 33,144
Public Safety	111,953
Health and Welfare	57,136
Recreation and Cultural	62,170
Total Depreciation Expense	<u>\$ 264,403</u>

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)Road Commission--Discretely Presented Component Unit

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land	\$ 91,689			\$ 91,689
Land Improvements--Infrastructure	1,484,745	\$ 1,401,549	\$ 14,954	2,871,340
Subtotal	1,576,434	1,401,549	14,954	2,963,029
Capital Assets Being Depreciated				
Land Improvements	65,691			65,691
Buildings	664,002			664,002
Road Equipment	4,553,589	143,057	52,257	4,644,389
Shop Equipment	57,090	4,084		61,174
Office Equipment	87,264	699	18,179	69,784
Engineers' Equipment	17,652		9,114	8,538
Depletable Assets	95,995			95,995
Infrastructure--Bridges	5,210,201	665,026	140,000	5,735,227
Infrastructure--Roads	1,915,582	1,333,626		3,249,208
Total	12,667,066	2,146,492	219,550	14,594,008
Less Accumulated Depreciation				
Land Improvements	65,690			65,690
Buildings	393,946	34,619		428,565
Road Equipment	3,590,246	369,050	52,257	3,907,039
Shop Equipment	48,859	3,173		52,032
Office Equipment	77,996	4,665	27,555	55,106
Engineers' Equipment	15,402	930	9,114	7,218
Depletable Assets	95,995			95,995
Infrastructure--Bridges	2,526,305	131,911	140,000	2,518,216
Infrastructure--Roads	111,378	190,586		301,964
Total	6,925,817	734,934	228,926	7,431,825
Net Capital Assets Being Depreciated	5,741,249	1,411,558	(9,376)	7,162,183
Total Net Capital Assets	\$ 7,317,683	\$ 2,813,107	\$ (5,578)	\$ 10,125,212

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT

The county issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the county. County contractual agreements and installment purchase agreements are also general obligations of the county. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Balance</u> <u>01/01/06</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/06</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>				
Post-closure landfill	\$ 77,185	\$ (4,032)	\$ 73,153	\$ 4,276
Note Payable--Ambulance with cost of \$118,500 and payments of \$32,156 beginning August 1, 2004 and ending August 2007 at an interest rate of 2.3%.	61,695	(30,657)	31,038	31,038
General Obligation Bond for the City of Harrisville Sewer Project with a cost of \$462,000; requires semi-annual payments beginning July 1, 1976 and ending January 1, 2015 at interest rates from 5% to 8 %.	213,000	(18,000)	195,000	19,000
Accrued Employee Benefits Payable	433,537	(51,291)	382,246	382,246
Total Governmental Activities	<u>\$ 785,417</u>	<u>\$ (103,980)</u>	<u>\$ 681,437</u>	<u>\$ 436,560</u>

In the governmental activities, compensated absences and the post-closure landfill liability are generally liquidated by the General Fund.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

	Balance 01/01/06	Additions (Reductions)	Balance 12/31/06	Due Within One Year
<u>Component Unit Activities</u>				
<u>Road Commission</u>				
State Infrastructure Bank Loan, principal due in annual installments of \$269,027, interest payments at a rate of 3%, due 2010.		\$ 1,000,000	\$ 1,000,000	\$ 239,027
Michigan Transportation Fund Bonds Payable, Series 2001, principal due in variable annual installments, variable semi-annual interest payments at a rate of 4.0% to 4.25%.	\$ 195,000	(195,000)	-	
Installment payable to Finance Company, 3.76% interest rate, payable in monthly installments of \$1,363, secured by equipment.	119,131	(12,428)	106,703	12,643
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$994, secured by equipment.	91,865	(8,868)	82,997	9,170
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,607, secured by equipment.	140,329	(13,617)	126,712	12,455
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,465, secured by equipment.	126,718	(12,469)	114,249	11,433
Accrued Employee Benefits Payable	200,608	(5,802)	194,806	
Total Road Commission	<u>\$ 873,651</u>	<u>\$ 751,816</u>	<u>\$ 1,625,467</u>	<u>\$ 284,728</u>
Total Reporting Entity Activities	<u>\$ 1,658,292</u>	<u>\$ 647,836</u>	<u>\$ 2,306,128</u>	<u>\$ 721,288</u>

The debt service requirements to maturity for the county's debt obligations outstanding at December 31, 2006 are as follows:

Annual Debt Service Requirements--Governmental Activities

Note payable for the ambulance with a cost of \$118,500 and annual payments of \$32,156 beginning August 1, 2004 and ending August 1, 2007 at an interest rate of 2.3%.

Year Ending December 31	Principal	Interest	Annual Total
2007	\$ 31,038	\$ 1,118	\$ 32,156

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

General Obligation Bond for the City of Harrisville sewer project with a cost of \$462,000 and requires semi-annual payments beginning July 1, 1976 and ending January 1, 2015 with interest rates from 5% to 8%.

<u>Year</u>	<u>January 1 Principal</u>	<u>January 1 Interest</u>	<u>July 1 Interest</u>	<u>Annual Total</u>
2007	\$ 19,000	\$ 4,875	\$ 4,400	\$ 28,275
2008	20,000	4,400	3,900	28,300
2009	21,000	3,900	3,375	28,275
2010	22,000	3,375	2,825	28,200
2011	22,000	2,825	2,275	27,100
2012	22,000	2,275	1,725	26,000
2013	22,000	1,725	1,175	24,900
2014	22,000	1,175	625	23,800
2015	<u>25,000</u>	<u>625</u>		<u>25,625</u>
	<u>\$ 195,000</u>	<u>\$ 25,175</u>	<u>\$ 20,300</u>	<u>\$ 240,475</u>

Annual Debt Service Requirements--Component Unit--Road Commission

Annual principal debt service requirements for the notes payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 284,728	\$ 49,436
2008	631,158	39,184
2009	253,584	15,443
2010	<u>261,191</u>	<u>7,836</u>
Total	<u>\$ 1,430,661</u>	<u>\$ 111,899</u>

NOTE H--COMPENSATED ABSENCES

Vacation Benefits Policies--Primary Government

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a bi-weekly basis. The county has established a formal policy regarding a maximum authorized accumulation of vacation hours per individual union agreement.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

Sick Leave Benefit Policies--Primary Government

The county's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked and union agreements.

The amounts listed below for the primary government are reported on the Statement of Net Assets as a noncurrent liability in the governmental activities column.

	<u>Sick/ Vacation</u>
Vested Employee Benefits Payable--Primary Government	
General Government	
County General Employees	\$ 77,108
Housing Employee	9,042
Health and Welfare	
Ambulance Employees	24,854
Public Safety	
Building Department Employees	3,908
Sheriff Department Employees	211,367
E-911 Employees	39,302
Recreation and Cultural	
Library	<u>16,665</u>
Total Vested Employee Benefits Payable	
Primary Government	382,246
Vested Employee Benefits Payable--Component Unit	
Road Commission Employees	<u>194,806</u>
Total Vested Employee Benefits Payable	
Reporting Entity	<u><u>\$ 577,052</u></u>

Accrued Vacation and Sick Leave Payable

The county and Road Commission (component unit) have accrued liabilities to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2006, as shown above.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES (Continued)

Compensated Absences--Road Commission Employees

Vacation and sick leave is reported in the Road Commission General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

NOTE I--EMPLOYEES' RETIREMENT PLANS

Description of the Plan and Plan Assets

Alcona County and the Alcona County Road Commission (component unit) are in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal period ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The county's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Funding Policy

The county is required to contribute at an actuarially determined rate. County employees are required to contribute 0% to 3% of their annual covered payroll. The contribution requirements of the county are established and may be amended by the retirement board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the county depending on the MERS contribution program adopted by the county.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

Annual Pension Costs

For the year ended December 31, 2005, the county's annual pension cost of \$293,805 for MERS was equal to the county's required and actual contributions. The required contribution rate was determined using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The county's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 27 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 294,288	100%	\$0
2004	318,767	100%	\$0
2005	293,805	100%	\$0

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/03	\$ 5,349,469	\$ 7,517,377	\$ 2,167,908	71.2%	\$ 1,941,483	112.0%
12/31/04	5,746,564	7,883,231	2,136,667	73.0%	1,822,480	117.0%
12/31/05	6,067,886	8,624,716	2,556,830	70.0%	1,791,628	143.0%

Defined Contribution Plan

The county contributes to the Alcona County MERS Retirement Plan, which is a defined contribution pension plan that is fully funded through MERS and administered by ICMARC. The chairman of the board of county commissioners is the coordinator of the plan.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account.

Contributions made by the county are vested at 100% immediately. The county is required to contribute an amount equal to 4% of the employee's gross earnings. Employees are not required to make contributions. The county made contributions in 2006 totaling \$54,980 based on participating employee wages. There is currently 1 employee included in the plan.

The county retirement plan held no securities in or loans to parties related to the plan.

The financial information for the pension plan was available through the MERS/ICMA annual statement as of December 31, 2006 for presentation in the basic financial statements. A summary of activity in the plan is as follows (at fair value).

Balance--January 1, 2006	\$ 277,247
Contributions and other Credits	97,196
Gain/Loss	<u>38,202</u>
Change in Value, Including Dividend and Capital Gain Reinvestments and Fees Equals a Balance at December 31, 2006	<u><u>\$ 412,645</u></u>

EMPLOYEE RETIREMENT AND BENEFITS--ROAD COMMISSION

Defined Contribution Plan

The Road Commission contributes to the Alcona County Road Commission Retirement Plan, which is a defined contribution pension plan that is fully funded through American Funds. The Board of Road Commissioners is the trustee of the plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLANS (Continued)

Contributions made by the Road Commission are vested at 100% immediately. The Road Commission is required to contribute an amount equal to 4% of the employee's gross earnings. Effective November 14, 2005, this contribution was increased to 5% in accordance with Article 11 of a new labor agreement negotiated with Teamsters Local 214. Effective July 2006, the contribution rate increased to 5.5%. Employees are not required to make contributions. The Road Commission made contributions in 2006 totaling \$59,068 based on employee wages of \$1,116,316. There are currently 31 employees included in the plan.

The Alcona County Road Commission Retirement Plan held no securities in or loans to parties related to the plan.

The financial information for the pension plan was available through the American Funds annual statement as of December 31, 2006 for presentation in the basic financial statements.

Deferred Compensation Plan

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue code, section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are the agents of the employer (Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the financial statements.

NOTE J--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits, the Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement and coverage is similar to current employee coverage which ceased in November 2005 with a new labor agreement. The Road Commission submits payments to the health insurance provider for retiree premiums on a monthly basis. These premiums are reimbursed by the retiree in the following month. Total premiums submitted on behalf of four retirees was \$39,386. Effective November 14, 2005, the Road Commission increased its contribution for retired employees at age 62 through 64 from \$400 per year to \$1,000 per year for hospital, medical, and life insurance purposes until the retiree reaches age 65 in accordance with Article 19, section 4 of a new Labor Agreement negotiated with Teamsters Local 214.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE K--MUNICIPAL SOLID WASTE LANDFILL POST-CLOSURE CARE COSTS

The county operated a landfill, the Alcona County Landfill (Landfill), which was "Capped" on October 31, 1988, under Public Act No. 641 of 1978. The post-closure is presently governed by the State of Michigan Department of Environmental Quality (DEQ).

The Landfill is no longer accepting solid waste. Under regulations set forth by the DEQ, the county is required to perform annual ground water monitoring at the Landfill for a period of 30 years subsequent to its closure. In accordance with Governmental Accounting Standards Board Statement No. 18, "Municipal Solid Waste Landfill Closure and Post-Closure Care Costs," management of the county has estimated the future post-closure costs expected to be incurred with the monitoring and the maintenance of the Landfill.

Past costs have been financed through the proceeds of a land contract on the sale of a Landfill Transfer Station neighboring the Landfill, which was sold several years ago. Future costs will be the responsibility of the county. Management anticipates that future monitoring costs will consist of only the costs associated with ground water testing. Any liability related to any other costs, which may possibly be incurred, cannot reasonably be estimated at this time and is not included in management's estimated liability. The estimated liability for expected post-closure costs as of December 31, 2006 is \$73,153.

NOTE L--CONTINGENCIES AND PENDING LITIGATION

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, county management does not believe such disallowances, if any, will be material to the financial position of the county.

NOTE M--PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2006, a prior period adjustment to net assets in the amount of \$1,335 was necessary to properly account for reclassifying the inmate welfare and county fair funds from governmental to business-type funds in the Statement of Net Assets during the year ended December 31, 2005. The effect on the Statement of Net Assets net asset balance was as follows:

	<u>Governmental</u>	<u>Business</u>
Net Assets--Beginning of Year as Previously Stated	\$ 6,074,718	\$ 4,049,344
Prior Period Adjustment Statement of Net Assets	<u>(1,335)</u>	<u>1,335</u>
Net Assets--Beginning of Year as Restated	<u>\$ 6,073,383</u>	<u>\$ 4,050,679</u>

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE M--PRIOR PERIOD ADJUSTMENTS (Continued)

Within the enterprise fund type, certain funds that were previously recorded as an enterprise fund is now reported as a debt service fund. The purpose of this restatement was to comply with the Michigan Department of Treasury, Uniform Chart of Account's definition of debt service funds. The restatement had the same effect on the net assets of the business-type activities as on the government-wide financial statements.

NOTE N--RISK MANAGEMENT

Primary Government

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The county's insurance carrier estimates that the potential claims against the county, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the county.

The county is self-insured for comprehensive liability, motor vehicle physical damage and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). All other types of risk of loss are covered through commercial insurance.

All liability claims up to \$75,000 per claim are paid from the net contribution account of the county held by the authority. In addition, after meeting certain deductible requirements, all vehicle claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$10,000 are also paid from the county's contribution account. The authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$5,000,000.

The authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expenses incurred per occasion. All other risk is transferred to the pool.

ALCONA COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE O--SUBSEQUENT EVENTS

Primary Government

The former county treasurer is in the county jail charged with misappropriation of county assets.

Component Unit

After the fiscal year end, the Road Commission authorized equipment purchases in the amount of \$141,000. Additionally in March 2006, the Road Commission executed a State Infrastructure Loan in the amount of \$1,000,000 at 3% with annual installments of \$269,027 for improvements to Ritchie Road.

ALCONA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT I

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance--January 1, 2006	\$ 1	\$ 1	\$ 1	-
Resources (Inflows)				
Property Taxes	2,793,754	2,793,754	2,874,636	\$ 80,882
Licenses and Permits	6,200	6,200	4,023	(2,177)
Federal Grants	88,400	88,400	114,704	26,304
State Grants	470,757	492,757	275,283	(217,474)
Contributions From Local Units of Government	3,000	3,000	2,395	(605)
Charges for Services	508,550	508,550	449,893	(58,657)
Fines and Forfeitures	14,600	14,600	21,975	7,375
Interest and Rentals	81,000	81,000	97,944	16,944
Other Revenue Loss Due to Misappropriation of Assets			(151,000)	(151,000)
Other Revenue	158,500	158,500	103,327	(55,173)
Transfers From Other Funds	374,048	374,048	199,085	(174,963)
Amounts Available for Appropriation	4,498,810	4,520,810	3,992,266	(528,544)
Charges to Appropriations (Outflows)				
Current				
General Government	2,053,052	2,053,052	2,081,334	(28,282)
Public Safety	2,048,159	2,070,159	1,975,208	94,951
Health and Welfare	187,992	187,992	193,091	(5,099)
Other	113,625	113,625	189,523	(75,898)
Transfers to Other Funds	97,600	97,600	11,500	86,100
Total Charges to Appropriations	4,500,428	4,522,428	4,450,656	71,772
Fund Balance--December 31, 2006	\$ (1,618)	\$ (1,618)	\$ (458,390)	\$ (456,772)

ALCONA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
AMBULANCE--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

EXHIBIT J

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 635,295	\$ 635,295	\$ 634,634	\$ (661)
Contributions From Local Units	6,600	6,600		(6,600)
Charges for Services	290,950	290,950	386,934	95,984
Interest and Rentals	500	500	1,318	818
Other Revenue Loss Due to Misappropriation of Assets			(171,690)	(171,690)
Other Revenue			2,354	2,354
Total Revenues	933,345	933,345	853,550	(79,795)
Expenditures				
Current				
Health and Welfare	904,188	904,188	901,092	3,096
Capital Outlay				-
Debt Service				
Principal	30,657	30,657	30,657	-
Interest and Fiscal Fees	1,500	1,500	1,499	1
Total Expenditures	936,345	936,345	933,248	3,097
Excess of Revenues Over (Under) Expenditures	(3,000)	(3,000)	(79,698)	(76,698)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,000)	(3,000)	(79,698)	(76,698)
Fund Balance--January 1, 2006	11,785	11,785	11,785	-
Fund Balance--December 31, 2006	\$ 8,785	\$ 8,785	\$ (67,913)	\$ (76,698)

ALCONA COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING RESERVE--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2006

EXHIBIT K

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 198,000	\$ 198,000	\$ 877,142	\$ 679,142
Total Revenues	198,000	198,000	877,142	679,142
Expenditures				
Current				
General Government	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	198,000	198,000	877,142	679,142
Other Financing Sources (Uses)				
Installment Purchase Proceeds				-
Interfund Transfers In				-
Interfund Transfers (Out)	(198,000)	(198,000)	(199,085)	(1,085)
Total Other Financing Sources (Uses)	(198,000)	(198,000)	(199,085)	(1,085)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	678,057	678,057
Fund Balance--January 1, 2006	1,442,942	1,442,942	1,442,942	-
Fund Balance--December 31, 2006	\$ 1,442,942	\$ 1,442,942	\$ 2,120,999	\$ 678,057

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006

EXHIBIT L

	SPECIAL REVENUE FUNDS							
	Park	Alcona Recreation Area	Friend of the Court	DPW Landfill	Discretionary	Building Inspection Fund	Register of Deeds Automation	Budget Stabilization
<u>ASSETS</u>								
Cash, Cash Equivalents and Investment Receivables	\$ 33,364	\$ 20	\$ 3,025	\$ 3,492	\$ 9,081	\$ 29,237	\$ 55,987	\$ 300,273
Taxes								
Accounts						332		
Loans								
Due From State of Michigan	8,585		23,542					
Due From Other Units of Government								
Due From Other Funds--Primary Government								
Advances To Other Funds					40,000			
Total Assets	\$ 41,949	\$ 20	\$ 26,567	\$ 3,492	\$ 49,081	\$ 29,569	\$ 55,987	\$ 300,273
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities								
Accounts Payable	\$ 3,980		\$ 4,649	\$ 3,256		\$ 454		
Due to Other Funds--Primary Government								\$ 207,662
Accrued Liabilities			995			435		
Escrows Payable								
Advances From Other Funds	40,000							
Deferred Revenue--Taxes								
Deferred Revenue--Other								
Total Liabilities	43,980	\$ -	5,644	3,256	\$ -	889	\$ -	207,662
Fund Balances								
Reserved for Capital Projects								
Reserved for Debt Service								
Reserved for Special Revenue Programs	(2,031)	20	20,923	236		28,680	55,987	
Reserved for Advance					40,000			
Unreserved--Undesignated					9,081			92,611
Total Fund Balances	(2,031)	20	20,923	236	49,081	28,680	55,987	92,611
Total Liabilities and Fund Balances	\$ 41,949	\$ 20	\$ 26,567	\$ 3,492	\$ 49,081	\$ 29,569	\$ 55,987	\$ 300,273

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006

EXHIBIT L
(CONTINUED)

	SPECIAL REVENUE FUNDS							
	Emergency 911	Local Correction Officers Training	County Library	Law Library	Library Memorial	Reiker Memorial Fund	Housing Commission Administration	Housing Commission Revolving Fund
<u>ASSETS</u>								
Cash, Cash Equivalents and Investment Receivables	\$ 120,534	\$ 2,278	\$ 47,018	\$ 89	\$ 8,780	\$ 571	\$ 130,499	\$ 312
Taxes			323,032					
Accounts	49,981							
Loans							1,255,807	
Due From State of Michigan								79,730
Due From Other Units of Government								
Due From Other Funds--Primary Government Advances To Other Funds			26,069	1,250			45,000	
Total Assets	\$ 170,515	\$ 2,278	\$ 396,119	\$ 1,339	\$ 8,780	\$ 571	\$ 1,431,306	\$ 80,042
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities								
Accounts Payable	\$ 1,426		\$ 4,526					\$ 306
Due to Other Funds--Primary Government			30,575	\$ 1,300				45,000
Accrued Liabilities	4,860		904					
Escrows Payable							\$ 522	
Advances From Other Funds								
Deferred Revenue--Taxes			323,032					
Deferred Revenue--Other							1,255,807	
Total Liabilities	6,286	\$ -	359,037	1,300	\$ -	\$ -	1,256,329	45,306
Fund Balances								
Reserved for Capital Projects								
Reserved for Debt Service								
Reserved for Special Revenue Programs	164,229	2,278	37,082	39	8,780	571	174,977	34,736
Reserved for Advance								
Unreserved--Undesignated								
Total Fund Balances	164,229	2,278	37,082	39	8,780	571	174,977	34,736
Total Liabilities and Fund Balances	\$ 170,515	\$ 2,278	\$ 396,119	\$ 1,339	\$ 8,780	\$ 571	\$ 1,431,306	\$ 80,042

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006

EXHIBIT L
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	Harbortown Marketplace	Economic Development Commission	Law Enforcement	D.A.R.E.	Michigan Justice Training	H.U.N.T.	Victim Services	Social Welfare	Probate Child Care
<u>ASSETS</u>									
Cash, Cash Equivalents and Investment Receivables	\$ 15,337	\$ 108	\$ 3,573	\$ 4,144	\$ 3,752	\$ 53,302	\$ 1,863	\$ 32,680	\$ 887
Taxes						100,758			
Accounts									
Loans									
Due From State of Michigan		20,000							7,581
Due From Other Units of Government									
Due From Other Funds--Primary Government Advances To Other Funds						22,140		10,000	4,915
Total Assets	\$ 15,337	\$ 20,108	\$ 3,573	\$ 4,144	\$ 3,752	\$ 176,200	\$ 1,863	\$ 42,680	\$ 13,383
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable	\$ 302					\$ 3,620	\$ 500		\$ 11,324
Due to Other Funds--Primary Government		\$ 25,000							105,000
Accrued Liabilities						980			360
Escrows Payable									
Advances From Other Funds									
Deferred Revenue--Taxes						100,758			
Deferred Revenue--Other									
Total Liabilities	302	25,000	\$ -	\$ -	\$ -	105,358	500	\$ -	116,684
Fund Balances									
Reserved for Capital Projects									
Reserved for Debt Service									
Reserved for Special Revenue Programs	15,035	(4,892)	3,573	4,144	3,752	70,842	1,363	42,680	(103,301)
Reserved for Advance									
Unreserved--Undesignated									
Total Fund Balances	15,035	(4,892)	3,573	4,144	3,752	70,842	1,363	42,680	(103,301)
Total Liabilities and Fund Balances	\$ 15,337	\$ 20,108	\$ 3,573	\$ 4,144	\$ 3,752	\$ 176,200	\$ 1,863	\$ 42,680	\$ 13,383

ALCONA COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2006

EXHIBIT L
(CONTINUED)

						DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS		
	Veterans Trust	Sheriff Pay Phone	Public Guardian	Remonumentation	Sick and Vacation	D.P.W. Sewer Debt	Equipment and Replacement	General Capital Projects	Total
<u>ASSETS</u>									
Cash, Cash Equivalents and Investment	\$ 700	\$ 10,827	\$ 17	\$ 150	\$ 129,715	\$ 23,875	\$ 2,854	\$ 42	\$ 1,028,386
Receivables									
Taxes									423,790
Accounts									50,313
Loans									1,255,807
Due From State of Michigan				33,583					173,021
Due From Other Units of Government						176,000			176,000
Due From Other Funds--Primary Government					961		26,326		136,661
Advances To Other Funds									40,000
Total Assets	\$ 700	\$ 10,827	\$ 17	\$ 33,733	\$ 130,676	\$ 199,875	\$ 29,180	\$ 42	\$ 3,283,978
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable			177				\$ 3,234		\$ 37,754
Due to Other Funds--Primary Government			8,500	17,000			120,000	\$ 9,100	569,137
Accrued Liabilities			347						8,881
Escrows Payable									522
Advances From Other Funds									40,000
Deferred Revenue--Taxes									423,790
Deferred Revenue--Other						176,000			1,431,807
Total Liabilities	\$ -	\$ -	9,024	17,000	\$ -	176,000	123,234	\$ 9,100	2,511,891
Fund Balances									
Reserved for Capital Projects								(9,058)	(9,058)
Reserved for Debt Service						23,875			23,875
Reserved for Special Revenue Programs	700	10,827	(9,007)	16,733	130,676		(94,054)		615,578
Reserved for Advance									40,000
Unreserved--Undesignated									101,692
Total Fund Balances	700	10,827	(9,007)	16,733	130,676	23,875	(94,054)	(9,058)	772,087
Total Liabilities and Fund Balances	\$ 700	\$ 10,827	\$ 17	\$ 33,733	\$ 130,676	\$ 199,875	\$ 29,180	\$ 42	\$ 3,283,978

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT M

	SPECIAL REVENUE FUNDS							
	Park	Alcona Recreation Area	Friend of the Court	DPW Landfill	Discretionary	Building Inspection Fund	Register of Deeds Automation	Budget Stabilization
Revenues								
Taxes								
Federal Grants			\$ 87,974					
State Grants	\$ 41,331							
Charges for Services			12,195			\$ 214,349	\$ 23,420	
Interest and Rents	1,554	\$ 60	509	\$ 1	\$ 236	1,302	160	
Fines and Forfeits								
Other Loss Due to Misappropriation of Assets								
Other	287				31,996	130		
Total Revenues	43,172	60	100,678	1	32,232	215,781	23,580	\$ -
Expenditures								
Current								
General Government			109,508				12,800	
Public Safety						246,582		
Public Works					28,365			
Health and Welfare								
Community and Economic Development								
Recreation and Cultural	26,984	2,306						
Capital Outlay								
Debt Service								
Principal				3,256				
Interest								
Total Expenditures	26,984	2,306	109,508	3,256	28,365	246,582	12,800	-
Excess of Revenues Over (Under) Expenditures	16,188	(2,246)	(8,830)	(3,255)	3,867	(30,801)	10,780	-
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government				3,500				
Operating Transfers (Out)--Primary Government								
Total Other Financing Sources (Uses)	-	-	-	3,500	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	16,188	(2,246)	(8,830)	245	3,867	(30,801)	10,780	-
Fund Balance--January 1, 2006	26,781	2,266	29,753	(9)	214	59,481	45,207	92,611
Restatement to Fund Balance	(45,000)				45,000			
Fund Balance--January 1, 2006 Restated	(18,219)	2,266	29,753	(9)	45,214	59,481	45,207	92,611
Fund Balance--December 31, 2006	\$ (2,031)	\$ 20	\$ 20,923	\$ 236	\$ 49,081	\$ 28,680	\$ 55,987	\$ 92,611

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT M
(CONTINUED)

	SPECIAL REVENUE FUNDS							
	Emergency 911	Local Correction Officers Training	County Library	Law Library	Library Memorial	Reiker Memorial Fund	Housing Commission Administration	Housing Commission Revolving Fund
Revenues								
Taxes			\$308,152					
Federal Grants							\$ 87,549	\$ 170,052
State Grants	\$ 3,080		22,940					
Charges for Services	365,266	\$ 4,787	6,369					
Interest and Rents	8,766	81	6,450	\$ 5	\$ 276	\$ 10	10,293	
Fines and Forfeits			74,606	2,500				
Other Loss Due to Misappropriation of Assets			(86,000)					
Other	8		7,037		7,213	500		300
Total Revenues	377,120	4,868	339,554	2,505	7,489	510	97,842	170,352
Expenditures								
Current								
General Government				3,300				
Public Safety	487,958	5,771						
Public Works								
Health and Welfare								
Community and Economic Development								178,413
Recreation and Cultural			388,501		5,592	902		
Capital Outlay								
Debt Service								
Principal								
Interest								
Total Expenditures	487,958	5,771	388,501	3,300	5,592	902	-	178,413
Excess of Revenues Over (Under) Expenditures	(110,838)	(903)	(48,947)	(795)	1,897	(392)	97,842	(8,061)
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government								23,879
Operating Transfers (Out)--Primary Government							(23,879)	
Total Other Financing Sources (Uses)	-	-	-	-	-	-	(23,879)	23,879
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(110,838)	(903)	(48,947)	(795)	1,897	(392)	73,963	15,818
Fund Balance--January 1, 2006	275,067	3,181	86,029	834	6,883	963	101,014	18,918
Restatement to Fund Balance								-
Fund Balance--January 1, 2006 Restated	275,067	3,181	86,029	834	6,883	963	101,014	18,918
Fund Balance--December 31, 2006	\$ 164,229	\$ 2,278	\$ 37,082	\$ 39	\$ 8,780	\$ 571	\$ 174,977	\$ 34,736

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT M
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	Harbortown Marketplace	Economic Development Commission	Law Enforcement	D.A.R.E.	Michigan Justice Training	H.U.N.T.	Victim Services	Social Welfare	Probate Child Care
Revenues									
Taxes						\$ 95,154			
Federal Grants		\$ 25,000							
State Grants					\$ 3,565				\$ 55,687
Charges for Services								\$ 126,297	
Interest and Rents	\$ 35,835		\$ 96	\$ 106	29	2,288		2,677	
Fines and Forfeits									
Other Loss Due to Misappropriation of Assets									
Other		9,640		1,741			\$ 10,322		3,820
Total Revenues	\$ 35,835	34,640	96	1,847	3,594	97,442	10,322	128,974	59,507
Expenditures									
Current									
General Government									
Public Safety				1,624	2,150	55,740	8,959		
Public Works									
Health and Welfare								144,746	161,771
Community and Economic Development	35,661	47,747							
Recreation and Cultural									
Capital Outlay									
Debt Service									
Principal									
Interest									
Total Expenditures	35,661	47,747	-	1,624	2,150	55,740	8,959	144,746	161,771
Excess of Revenues Over (Under) Expenditures	174	(13,107)	96	223	1,444	41,702	1,363	(15,772)	(102,264)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government		8,000							
Operating Transfers (Out)--Primary Government									
Total Other Financing Sources (Uses)	-	8,000	-	-	-	-	-	-	-
Excess of Revenues and Other Sources Over (Under)									
Expenditures and Other Uses	174	(5,107)	96	223	1,444	41,702	1,363	(15,772)	(102,264)
Fund Balance--January 1, 2006	14,861	215	3,477	3,921	2,308	29,140	-	58,452	(1,037)
Restatement to Fund Balance									
Fund Balance--January 1, 2006 Restated	14,861	215	3,477	3,921	2,308	29,140	-	58,452	(1,037)
Fund Balance--December 31, 2006	\$ 15,035	\$ (4,892)	\$ 3,573	\$ 4,144	\$ 3,752	\$ 70,842	\$ 1,363	\$ 42,680	\$ (103,301)

ALCONA COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

EXHIBIT M
(CONTINUED)

	SPECIAL REVENUE FUND					DEBT SERVICE FUND	CAPITAL PROJECTS FUNDS		
	Veterans Trust	Sheriff Pay Phone	Public Guardian	Remonumentation	Sick and Vacation	D.P.W. Sewer Debt	Equipment and Replacement	General Capital Projects	Total
Revenues									
Taxes									\$ 403,306
Federal Grants									370,575
State Grants	\$ 1,793			\$ 57,823					186,219
Charges for Services		\$15,371	\$ 19,597						787,651
Interest and Rents		364		458			\$ 2,208		73,764
Fines and Forfeits									77,106
Other Loss Due to Misappropriation of Assets									(86,000)
Other					\$ 724	\$ 52,075			125,793
Total Revenues	1,793	15,735	19,597	58,281	724	52,075	2,208	\$ -	1,938,414
Expenditures									
Current									
General Government				60,598	4,804			9,280	200,290
Public Safety		9,667					14,466		832,917
Public Works									28,365
Health and Welfare	2,127		29,048						337,692
Community and Economic Development									261,821
Recreation and Cultural									424,285
Capital Outlay							91,478		91,478
Debt Service									
Principal						18,000			21,256
Interest						10,200			10,200
Total Expenditures	2,127	9,667	29,048	60,598	4,804	28,200	105,944	9,280	2,208,304
Excess of Revenues Over (Under) Expenditures	(334)	6,068	(9,451)	(2,317)	(4,080)	23,875	(103,736)	(9,280)	(269,890)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government							9,614		44,993
Operating Transfers (Out)--Primary Government		(9,614)							(33,493)
Total Other Financing Sources (Uses)	-	(9,614)	-	-	-	-	9,614	-	11,500
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(334)	(3,546)	(9,451)	(2,317)	(4,080)	23,875	(94,122)	(9,280)	(258,390)
Fund Balance--January 1, 2006	1,034	14,373	444	19,050	134,756	-	68	222	1,030,477
Restatement to Fund Balance									-
Fund Balance--January 1, 2006 Restated	1,034	14,373	444	19,050	134,756	-	68	222	1,030,477
Fund Balance--December 31, 2006	\$ 700	\$10,827	\$ (9,007)	\$ 16,733	\$ 130,676	\$ 23,875	\$ (94,054)	\$ (9,058)	\$ 772,087

ALCONA COUNTY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
December 31, 2006

EXHIBIT N

	BUSINESS-TYPE ACTIVITIES		
	<u>NON-MAJOR ENTERPRISE FUNDS</u>		
	Fair Board	Inmate Welfare/ Jail Commissary	Total Non-Major Funds
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ (2,006)	\$ 3,902	\$ 1,896
Investments	4,441		4,441
Total Assets	\$ 2,435	\$ 3,902	\$ 6,337
<u>LIABILITIES</u>			
Current Liabilities			
Due to Other Funds		\$ 500	\$ 500
Deposits Payable		3,842	3,842
Total Current Liabilities	\$ -	4,342	4,342
Total Liabilities	-	4,342	4,342
<u>NET ASSETS</u>			
Unrestricted	2,435	(440)	1,995
Total Net Assets	\$ 2,435	\$ 3,902	\$ 1,995

ALCONA COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT O

	BUSINESS-TYPE ACTIVITIES		
	<u>NON-MAJOR ENTERPRISE FUNDS</u>		
	Fair Board	Inmate Welfare/ Jail Commissary	Total Non-Major Enterprise Funds
Operating Revenues			
Charges for Services	\$ 40,108	\$ 3,929	\$ 44,037
Other Receipts	16,555		16,555
Total Operating Revenues	56,663	3,929	60,592
Operating Expenses			
Wages	3,274		3,274
Materials and Supplies	26,873	5,296	32,169
Contracted Services	11,564		11,564
Insurance	16,136		16,136
Repairs	10,157		10,157
Total Operating Expenses	68,004	5,296	73,300
Operating Income (Loss)	(11,341)	(1,367)	(12,708)
Nonoperating Revenues (Expenses)			
State Operating Grants	13,054		13,054
Interest Earned on Investments	313		313
Total Nonoperating Revenues (Expenses)	13,367	-	13,367
Change in Net Assets	2,026	(1,367)	659
Total Net Assets--January 1, 2006	409	927	1,336
Total Net Assets--December 31, 2006	\$ 2,435	\$ (440)	\$ 1,995

ALCONA COUNTY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2006

EXHIBIT P

BUSINESS-TYPE ACTIVITIES
NON-MAJOR ENTERPRISE FUNDS

	Fair Board	Inmate Welfare/ Jail Commissary	Total Enterprise Funds
Cash Flows From Operating Activities			
Cash Received From Customers	\$ 40,108	\$ 3,929	\$ 44,037
Other Cash Receipts	16,555		16,555
Cash Payments to Employees for Services and Benefits	(3,274)		(3,274)
Cash Payments to Suppliers for Goods and Services	(64,730)	(5,296)	(70,026)
Net Cash Provided by Operating Activities	(11,341)	(1,367)	(12,708)
Cash Flows From Noncapital Financing Activities			
State Grants	13,054		13,054
Net Cash Provided by Noncapital Financing Activities	13,054	-	13,054
Cash Flows From Investing Activities			
Interest on Cash Equivalents	314		314
Sale or (Purchase) of Investments	(200)	213	13
Net Cash Provided by Investing Activities	114	213	327
Net Increase (Decrease) in Cash and Cash Equivalents	1,827	(1,154)	673
Cash and Cash Equivalents at Beginning of Year	(3,833)	5,056	1,223
Cash and Cash Equivalents at End of Year	\$ (2,006)	\$ 3,902	\$ 1,896
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (11,341)	\$ (1,367)	\$ (12,708)
Net Cash Provided by Operating Activities	\$ (11,341)	\$ (1,367)	\$ (12,708)

ALCONA COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
December 31, 2006

EXHIBIT Q

AGENCY FUNDS				
	General Agency	Tax Collection	Library (Penal Fines) Fund	Total
<u>ASSETS</u>				
Cash	\$2,822,329	\$133,910	\$ 38,080	\$2,994,319
Investments			174	174
Total Assets	<u>\$2,822,329</u>	<u>\$133,910</u>	<u>\$ 38,254</u>	<u>\$2,994,493</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Due to Other Funds	\$1,933,116	\$ 1,052	\$ 1,250	\$1,935,418
Due to State of Michigan	520,652	122,867		643,519
Due to Other Units of Government	7,355	9,991		17,346
Undistributed Tax Collections	316,108			316,108
Bonds Restitutions and Payable to Individuals	53,659			53,659
Other Trust Payable	(16,619)			(16,619)
Other Payroll Liabilities	8,058			8,058
Undistributed Penal Fines			37,004	37,004
Total Liabilities	<u>\$2,822,329</u>	<u>\$133,910</u>	<u>\$ 38,254</u>	<u>\$2,994,493</u>

ALCONA COUNTY
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT R

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Taxes				
Current Property Taxes	\$ 2,763,854	\$ 2,763,854	\$ 2,863,592	\$ 99,738
Unpaid Personal Property Taxes	3,000	3,000	1,121	(1,879)
Payments in-Lieu-of Taxes	25,300	25,300	7,128	(18,172)
Trailer Park Taxes	100	100	84	(16)
Interest on Taxes	1,500	1,500	2,711	1,211
Total Taxes	2,793,754	2,793,754	2,874,636	80,882
Licenses and Permits				
Dog Licenses	2,500	2,500	1,911	(589)
Marriage Licenses	500	500	320	(180)
Pistol Permits	2,800	2,800	1,430	(1,370)
Boat Livery Tags	400	400	362	(38)
Total Licenses and Permits	6,200	6,200	4,023	(2,177)
Federal Grants				
Marine Safety	12,000	12,000	31,219	19,219
Prosecuting Attorney--Cooperative Reimbursement Program	23,000	23,000	13,937	(9,063)
Youth/family Surveillance	13,000	13,000	13,354	354
JAIB Grant	3,200	3,200		(3,200)
Emergency Services	6,200	6,200	28,938	22,738
School Liasion Officer	31,000	31,000	27,256	(3,744)
Total Federal Grants	88,400	88,400	114,704	26,304
State Grants				
Probate Judges Salaries	24,650	24,650	23,897	(753)
Court Juvenile Officer	20,500	20,500	40,976	20,476
Snowmobile Safety Program	2,500	2,500		(2,500)
Secondary Road Patrol Program	54,500	54,500	51,263	(3,237)
Drunk Driving Caseflow Assistance	3,200	3,200	2,978	(222)
Prosecution and Investigation Fee	11,000	11,000	8,375	(2,625)
Jury Fee Reimbursements	2,300	2,300	932	(1,368)
LEPC Public Awareness	-	-	200	200
Court Equity	65,000	65,000	65,700	700
Judicial Technology Improvement	2,000	2,000		(2,000)
Judges' Salary Standardization	4,300	4,300	5,750	1,450
Voter Registration	300	300	170	(130)
Drug Court Fees			38	38
Drug Caseflow	100	100	117	17
Crime Victim Rights Services	15,000	15,000	10,100	(4,900)
DNA Testing	200	200	41	(159)
State Grant Cooperative Reimbursement	18,564	40,564	260	(40,304)
State Cigarette Tax			6,921	6,921
State Revenue Sharing	188,643	188,643		(188,643)
State Liquor Tax	58,000	58,000	57,565	(435)
Total State Grants	470,757	492,757	275,283	(217,474)
Contributions From Local Units of Government	3,000	3,000	2,395	(605)
Total Contributions From Local Units of Government	3,000	3,000	2,395	(605)
Charges for Services				
Circuit Court Costs	17,000	17,000	16,910	(90)
District Court Costs	150,000	150,000	143,271	(6,729)
Bond Costs	3,500	3,500	3,600	100
District Court Fees	16,000	16,000	15,841	(159)
Court Appointed Attorney Fees	12,000	12,000	4,795	(7,205)

ALCONA COUNTY
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT R
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services (Continued)				
Probation Fees	35,000	35,000	36,264	1,264
Friend of the Court Fees	2,400	2,400	1,276	(1,124)
Circuit Court Fees	4,500	4,500	4,372	(128)
Clerk Services	11,000	11,000	14,254	3,254
Probate Court Fees	10,000	10,000	6,063	(3,937)
Equalization Services	4,500	4,500	14,692	10,192
Treasurer's Services	4,000	4,000	2,600	(1,400)
GIS Mapping Revenue			11,185	11,185
Real Estate Transfer Tax	60,000	60,000	46,214	(13,786)
Register of Deed's Fees	110,000	110,000	89,481	(20,519)
Plat Book Sales	3,500	3,500	1,918	(1,582)
Remonumentation	350	350	255	(95)
Child Care Collection Fees	400	400	831	431
CVF 10% Fee			35	35
Sheriff Services	23,200	23,200	23,921	721
Employee Meals	100	100	112	12
Salvage Vehicle Inspection	400	400	400	-
Record Copying	700	700	1,445	745
Computer Services	40,000	40,000	10,158	(29,842)
Inmates' Room and Board				-
Total Charges for Services	508,550	508,550	449,893	(58,657)
Fines and Forfeitures				
Bond Forfeitures	12,000	12,000	19,295	7,295
Bail Bond Collection Fees	2,500	2,500	2,680	180
Ordinance Fines and Costs	100	100		(100)
Total Fines and Forfeitures	14,600	14,600	21,975	7,375
Interest and Rents				
Interest Earned	65,000	65,000	87,519	22,519
Dividend--MCWCF	6,000	6,000	5,393	(607)
Library Rents	10,000	10,000	5,032	(4,968)
Total Interest and Rents	81,000	81,000	97,944	16,944
Other Revenue				
Loss Due to Misappropriation of Assets			(151,000)	(151,000)
Sale of Capital Assets	7,000	7,000	7,058	58
Aerial Photos Reimbursements			5,500	5,500
Inmate Welfare Reimbursements	86,700	86,700	51,630	(35,070)
Election Reimbursements	4,000	4,000	3,353	(647)
CVF Refund	300	300	2,816	2,516
Sheriff Services Refunds			357	357
Attorney Fees Reimbursement	5,500	5,500	11,418	5,918
Others	55,000	55,000	21,195	(33,805)
Total Other Revenue	158,500	158,500	(47,673)	(206,173)
Total Revenues	4,124,761	4,146,761	3,793,180	(353,581)
Other Sources				
Operating Transfers In From (Primary Government)				
Transfers In	374,048	374,048	199,085	(174,963)
Total Other Sources	374,048	374,048	199,085	(174,963)
Total Revenue and Other Sources	\$ 4,498,809	\$ 4,520,809	\$ 3,992,265	\$ (528,544)

ALCONA COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2006

EXHIBIT S

	Original Budget	Amended Budget	Actual	Over (Under) Budget
General Government				
Board of Commissioners	\$ 151,844	\$ 151,844	\$ 160,852	\$ (9,008)
Multicounty Circuit Court	275,894	275,894	250,533	25,361
District Court	195,252	195,252	191,181	4,071
Probate Court	143,250	143,250	150,217	(6,967)
Jury Commission	2,000	2,000	1,136	864
Elections	54,100	54,100	30,639	23,461
County Clerk	193,190	193,190	202,544	(9,354)
Equalization Department	203,689	203,689	193,851	9,838
Prosecuting Attorney	220,923	220,923	252,266	(31,343)
Register of Deeds	173,473	173,473	168,206	5,267
County Treasurer	144,388	144,388	149,653	(5,265)
Cooperative Extension Service	72,411	72,411	72,605	(194)
Courthouse and Grounds	156,038	156,038	160,388	(4,350)
Alcona County Recycle	1,500	1,500		1,500
Cost Allocation Plan			1,211	(1,211)
Soil Conservation	3,300	3,300	3,300	-
Central Data Processing	61,800	61,800	92,752	(30,952)
Total General Government	2,053,052	2,053,052	2,081,334	(28,282)
Public Safety				
Sheriff Department	1,144,828	1,144,828	1,135,065	9,763
Marine Safety	27,999	27,999	16,099	11,900
Snowmobile Safety	6,000	6,000	137	5,863
Secondary Road Patrol	96,936	96,936	88,804	8,132
Jail	735,414	735,414	664,460	70,954
Office of Emergency Preparedness	28,882	50,882	62,297	(11,415)
Animal Shelter	8,100	8,100	8,346	(246)
Total Public Safety	2,048,159	2,070,159	1,975,208	94,951
Health and Welfare				
Medical Examiner	8,400	8,400	14,561	(6,161)
Veterans' Affairs	28,000	28,000	21,615	6,385
Substance Abuse	26,000	26,000	26,538	(538)
Multicounty District Health	90,038	90,038	90,038	-
Multicounty Mental Health	35,454	35,454	35,454	-
Cigarette tax Distribution			4,885	(4,885)
Contagious Disease	100	100		100
Total Health and Welfare	187,992	187,992	193,091	(5,099)
Other				
Insurance and Bonds	108,350	108,350	177,432	(69,082)
Employer Costs and Fringes	5,275	5,275	12,091	(6,816)
Total Other	113,625	113,625	189,523	(75,898)
Total Expenditures	4,402,828	4,424,828	4,439,156	(14,328)
Other Uses				
Operating Transfers (Out)--Primary Government				
Parks and Recreation	1,000	1,000		1,000
Alcona Recreation Area	3,500	3,500		3,500
DPW Landfill	3,500	3,500	3,500	-
Economic Development	8,000	8,000	8,000	-
Child Care	80,000	80,000		80,000
Veterans	1,600	1,600		1,600
Total Operating Transfers (Out)--Primary Government	97,600	97,600	11,500	86,100
Total Other Uses	97,600	97,600	11,500	86,100
Total Expenditures and Other Uses	\$ 4,500,428	\$ 4,522,428	\$ 4,450,656	\$ 71,772



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 16, 2007

County of Alcona
County Board of Commissioners
106 Fifth Street
Harrisville, Michigan 48740

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Alcona County as of and for the year ended December 31, 2006, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alcona County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alcona County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Alcona County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alcona County's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the

accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as 06-01 through 06-9.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Alcona County's internal control. Of the significant deficiencies listed above we consider items listed as 06-1 through 06-9 to be material weaknesses in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. We did identify significant deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcona County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying comments and recommendations as items 06-10 through 06-18.

We also noted "Other Matters" that we reported to the management of Alcona County's in the accompanying comments and recommendations as item 06-19 through 06-24.

This report is intended solely for the information of the Alcona County Board of Commissioners, the County's management and others within the County, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Alcona County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Alcona County's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Listed below are significant deficiencies in the internal control.

Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

MATERIAL WEAKNESSES

Bank Reconciliation to Funds

Finding 06-01

Condition: The county has numerous depository and investment accounts that are being reconciled in total to the book balance for all funds. The accounts can not be reconciled to specific cash and investment balances in the funds of the county.

Criteria: Michigan Department of Treasury Accounting Policy and Procedures Manual states: "All bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply. Bank accounts required by treasury are as follows: Common Account, Current Tax Collection Account, Bond Issues, Debt Fund and Capital Projects Fund.

Ending bank statement balances should be reconciled to the book balances of the county including the identification of all reconciling items (deposits in transit, outstanding checks, overages, shortages, unrecovered NSF checks, bank service charges, checks cleared in error, bank errors, credit memos, debit memos and other items on the bank statement that are not on the county records and vice versa). Reconciling items should be brought to the attention of the bank and responsible county staff. The items should be properly disposed of, adjusted, and eliminated prior to completion of the following month's bank reconciliation.

Recommendation: Bank and investment accounts should be limited to those considered necessary by management. Separate bank accounts should be maintained for those funds that are required by law or bond covenant. The depository and investment accounts must be reconciled to the book balance for specific funds of the county. Errors in the reconciliations should be cleared and/or adjusted monthly.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Management's Response: The new treasurer will insure that penalties will not be incurred and that the number of accounts will be reduced to a more manageable number of bank and investment accounts.

Commencing late this spring, the treasurer and clerk are reconciling bank accounts to individual funds.

Treasurer's Office--Bank to Book Reconciliation

Finding 06-02

Condition: We found that the treasurer reconciles investments from the bank accounts to a subsidiary worksheet of investments, but does not reconcile the subsidiary worksheet to the general ledger. There was a significant discrepancy between the two because of this.

Criteria: The general ledger must reconcile to the investment bank accounts.

Recommendation: We recommend that the treasurer not only reconcile the investment accounts to the subsidiary worksheet, but also reconcile them to the general ledger.

Management's Response: The current treasurer has developed a system whereby the investment accounts reconcile to the subsidiary worksheet AND to the general ledger.

Negative Cash Balances

Finding 06-03

Condition: The county pools all their depository cash into one common bank account at Huron Community Bank. Of the county's 57 funds, 25 had negative cash book balances. Many had significant negative balances including \$3,894,891.14 in the General Fund, \$252,139.9 in the Ambulance Service Fund, and \$104,112.65 in the Probate Child Care Fund. This represents unauthorized borrowing from one fund to another. Some of these funds represent restricted tax levy money or grant money. The most significant "borrowing" was from the Trust and Agency Fund which had a \$2,822,329.52 positive balance. If this fund did not have this balance, the county would not have been able to make the amount of disbursements from the other funds. The money in the Trust and Agency Fund is not the county's, but is being held on behalf of others such as individuals and governmental units.

To eliminate the negative cash balances "due to" and "due from" entries were posted to the accounting records. The majority of the borrowing of funds took place from the Trust and Agency Funds.

Criteria: While it is acceptable to borrow cash from certain funds to another if the money is not restricted, it is not acceptable to incur negative cash balances. The negative cash balances also represent improper transfers between funds since they were not budgeted nor approved by the board of commissioners.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

In addition, Attorney General Opinion 6009 of 1981 states: "County money is to be paid out by the treasurer only upon order of the board of county commissioners, signed by the clerk and countersigned by the chairman, or otherwise as provided by law subject to sufficient moneys being available in the fund for which the disbursement is being made." (emphasis added)

Recommendation: All transfers between funds must be budgeted and approved by the board of commissioners. The county should cease to make purchases from funds without cash available to pay for the resulting expenditure. Negative cash balances should never be incurred.

Management's Response: Already by board action, transfers have been made to eliminate most of those funds in a negative position and place them in a "positive value" position.

At no time in the past, had the board authorized utilization of the Trust and Agency dollars to be used or borrowed for use in other funds. We recognize now that that had happened, and by the refusal of the current treasurer, and proposed board action addressing this, we will assure that in the future the Trust and Agency Funds will not be used as a leverage cash basin.

Further, by board action, we have initiated a policy that requires the signature of the chairman of the board as well as the treasurer or deputy treasurer for transfer of investments.

In addition, we now recognize and a policy will be developed to insure that no fund will have disbursements made which would cause it to have insufficient moneys.

Appropriate policy will be developed and passed by the board which will insure that all transfers between funds must be budgeted and approved by the full board of commissioners.

Treasurer's Office--Segregation of Duties

Finding 06-04

Condition: We found that there was improper segregation of duties over the cash and especially the investment activities in the treasurer's office. The reconciliation and reporting of investments were under the sole control of the treasurer with virtually no oversight by others in his office or by the board of commissioners. Posting the general ledger, bank reconciliation and reconciling the accounting records was under the control of the treasurer. Regular reports requested were rarely produced or were delayed. Those reports that were produced were not reconciled to cash and investment bank statements by anyone other than the treasurer. This has led to numerous errors and other staff having limited knowledge of accounting procedures used by the county.

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The functions of authorizations, recordkeeping, and custody of assets should be segregated where possible. For example, ideally the process of cash collection and depositing should be performed by an employee who is independent from general ledger recordkeeping and bank reconciliation. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Recommendation: The duties of posting to the accounting records and reconciling them to the original source documentation should be segregated to the extent possible. Where this is not possible, offsetting controls should be put into place to compensate for a particular weakness. For example, the cash collections should be done by someone other than that person who makes the bank deposits. Bank reconciliations should be performed by someone other than who makes the collections and the depositing. If this is not possible because of a lack of personnel, a second official must review the reconciliation.

Management's Response: Policy will be developed by the treasurer's office and approved by the board of commissioners to provide for stronger internal control processes within the treasurer's three person office.

Treasurer's Office--Internal Reporting

Finding 06-05

Condition: The treasurer's office was not producing periodic reports to the board of commissioners.

Criteria: The board of commissioners must be provided periodic financial reports from the treasurer's office. These reports will assist the board in determining whether the financial activity of the various funds is within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures, etc. The required periodic reports and suggested frequency should include the following:

- Detail revenue by Fund--Budget and Actual Monthly
- Detail Expenditures by Fund--Budget and Actual Monthly

Recommendation: In addition to those reports listed above, the county may also want the treasurer to produce a summary report of cash activity by fund and a summary report of cash activity by bank account, certificate of deposit and investment account. The treasurer should produce a balance sheet by fund monthly or quarterly.

Each of these period reports should have reconciliations available to be reviewed which would enable one to trace the balances in the reports to corresponding bank statements.

Management's Response: The "Condition" as listed was the action of the former treasurer. Although requests were made by the commissioners, he would indicate that he would give them to us when he had them prepared.

Our "new and improved" treasurer is very aware of the need for monthly reports of the financials as well as quarterly information being provided regarding investments. The current treasurer along with the clerk are now providing not less than monthly financials and the treasurer has provided investment information and will continue to do so. Further, she is commencing a summary report of cash activity by bank account, CD, and investment records. All of this will assist in providing monthly balance sheets with accuracy and in a timely manner.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

In addition, the board will include the timing of the financial reporting and the investment reporting in the policies we are now preparing and will adopt as soon as possible.

Revenue Recognition

Finding 06-06

Condition: During 2006, the county did not recognize revenue for delinquent taxes in the General, Ambulance, County Library and H.U.N.T. Funds. The 2005 Delinquent Tax Fund had recorded the “due to” for the four funds as previously listed. County procedures recognize some, but not all, of the revenue earned by not recording the “due from” the Delinquent Tax Fund.

Criteria: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds." The accounting records must show “due to/due from” as being equal to each other.

Recommendation: Procedures should be implemented to reconcile all “due to/due from” to ensure that each account is properly posted.

Management’s Response: Based on the new understanding of revenue recognition and a more timely and attentive approach to this, these issues will not continue with the new treasurer.

This concern will also be addressed in the soon to be developed Financial Policies for Alcona County.

Prior practice was for the treasurer to make all “changes” or transfers toward the end of the year. Accounts would be left in a negative or funds not transferred until close to the end of the year, and then it would all be done at one time by the treasurer.

Treasurer’s Office Voided Receipts

Finding 06-07

Condition: We found that receipts can be voided without administrative approval prior to posting to the general ledger. The receipts are not posted to the general ledger immediately.

Criteria: Receipts should only be able to be voided with administrative approval and there should be an explanation for the voided receipt and a reference to a replacement receipt, if applicable.

Recommendation: We recommend that the computer system be set up in a way that will not allow the voiding of receipts without the approval of the treasurer. If the computer system cannot be set up to be restrictive, the treasurer’s approval should be designated by putting their initials or signature for each void at the time the voided receipt is made as well as an explanation for the void and reference to the replacement receipt (if replaced).

Management’s Response: Efforts will be made to configure the computer system to not allow the voiding of receipts without prior approval of the treasurer.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

A procedure for the treasurer to initial or sign each receipt, which is being voided, will be developed with appropriate explanation for the void with a replacement reference where needed.

FICA Double Posting to Expenditures

Finding 06-08

Condition: The payroll system posts the employee and employer share of FICA to the accounting records. A journal entry was being posted to create a liability for the employer share of FICA. At year end, the county had paid all amounts owing for FICA. However, there were balances for FICA liability recorded on the records of the county at year end due to a manual journal entry that was being posted to the accounting records.

Criteria: FICA withholding and the employer FICA match is required to be reported on Form 941 and is to be recorded on the records of the employer.

Recommendation: We recommend that the posting of FICA from the payroll system to the general ledger be verified on a monthly basis. After the FICA has been paid for the pay period, a staff member should verify that the liability account is zero. This should be done prior to the posting of the next payroll.

Management's Response: The county, (the clerk's office and the commissioners) were aware that there was too much allowed or funded to the employer FICA line-items. Yet, the recommendation was to correct it at year end.

The treasurer's office will initiate a procedure for verifying monthly a zero account balance in the FICA prior to processing succeeding payrolls.

Capital Assets

Finding 06-09

Condition: The capital asset listing was not updated until after the start of the audit as the list had to be obtained from the previous auditor. The county set a capitalization threshold of \$5,000, but items under \$5,000 were posted to capital outlay leading to adjustments to correct the additions to the capital asset list.

Criteria: The Michigan Department of Treasury and generally accepted accounting principles requires that each governmental unit maintain a record of capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34 requires capital assets to be presented on the Statement of Net Assets-net of depreciation and related debt. It is the responsibility of the county to update the listing for additions and deletions. For governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Disposals should equal the reductions to the capital asset records. Depreciation is also to be calculated on the capital assets.

Recommendation: We recommend the county maintain its capital asset listing throughout the year and that it be periodically reviewed to ensure that the capital outlay is properly posted, disposals are updated, and the related depreciation is calculated.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Management's Response: In the near future, a capital asset inventory will be established utilizing current information and developing that which is not yet completed. The board, utilizing GASB Statement No. 34, will establish a policy and a procedure for handling of capital assets for the county. We will aim for the completion of this inventory before year end.

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Misappropriation of Assets by County Treasurer

Finding 06-10

Condition: During our bank confirmation/verification of cash and investments, we found that over \$1,200,000 in county funds were transferred by the county treasurer to “out of state” and foreign banks, which also included forged documentation. International wire transfers were made. Other investments such as FOREX, an international exchange market where currencies are bought and sold, are contrary to this statute. The former treasurer was not in compliance with Public Act 20 of 1943, as amended.

The transfer of funds reduced the county’s cash and investments since the funds do not exist. The county treasurer pled guilty to embezzlement charges. Management posted the required entries to recognize the embezzlement of county funds. Most of the money was taken from the Delinquent Tax Revolving Fund. County funds were not placed in duly designated depositories as authorized by the county board of commissioners’ investment policy.

Criteria: Michigan Compiled Laws (MCL), Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Directive: We direct the county to make only legal investments and to put the proper internal controls in place to assure this happens on a consistent basis. Deposits, investments and transfers should only be made as authorized by the county board of commissioners’ depository and investment policies and MCL 129.91.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Management's Response: The county will revise their investment policy to comply with MCL 129.91 and other pertinent statutes and laws as appropriate. Further, the board of commissioners will periodically, quarterly, review the location of all county funds invested as to amounts, location, terms and conditions of the investment.

Board Minutes and Expenditure Approval

Finding 06-11

Condition: Two board members comprise the county finance committee. They review all bills prior to payment. Expenditures of the county are approved by the full county board of commissioners after they have been paid. The minutes of the board includes approval of the General Fund expenditures but not for any other funds. The check numbers that are for the expenditures being approved are not included in the board minutes which makes it difficult to identify the specific bills that had been approved.

Criteria: MCL 46.71, Section 1 states: "It shall be the duty of the board of supervisors of each county, or the board of county auditors in counties having a board of county auditors, to adjust, allow and authorize the payment of all claims against the particular county, and any claims not adjusted and ordered paid by the said board of supervisors or board of county auditors, as the case may be, except as provided in this act, shall not be paid. Any claim or any part or portion thereof which may be adjusted or allowed by the board of supervisors or the board of county auditors shall be paid out of the county treasury in the manner provided by general law. (emphasis added)

Recommendation: An open invoice listing showing the claims to be paid should be presented to the board with supporting documentation prior to payment. A final listing of approved claims should be signed by the chairman of the board and the clerk of the board, per Attorney General Opinion No. 6246 of 1984. The board may develop a policy to allow for certain payments prior to full board approval such as payroll and claims that allow a discount. In addition, the county should include the beginning and ending check numbers and dollar amount of the bills approved by the board in the board minutes. The board minutes are the official record of all board actions.

Management's Response: We have already initiated the process of approving expenditures for all funds and also approving the specific checks by number.

The board will develop a grouping of pre approved vendors primarily those of utilities, fuel for patrol cars, and that category of expenditures for a pre approval up to a particular amount. These will still come to the board for final approval along with all other expenditures in all applicable funds.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Budgetary Procedures

Finding 06-12

Condition: The department heads did not receive a copy of their revenue and expenditure reports on a timely basis during the year. Recommendations for changes to the budget were not available for presentation to the board of county commissioners. The county exceeded budget in several departments and/or funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Governmental			
General Fund			
General Government	\$2,053,052	\$2,081,334	\$ (28,282)
Health and Welfare	189,592	193,091	(3,499)
Other	113,625	189,523	(75,898)
Special Revenue Funds			
Revenue Sharing Reserve	198,000	199,085	(1,085)
Parks and Recreation	26,925	26,984	(59)
Local Correction Officers Training	3,000	5,771	(2,771)
Library Memorial	1,000	5,592	(4,592)
Reiker Memorial	500	902	(402)
Housing Commission Revolving	170,300	178,413	(8,113)
Harbortown Marketplace	32,300	35,661	(3,361)
Economic Development Commission	12,860	47,747	(34,887)
Victim Services	-	8,959	(8,959)
Probate Child Care	111,275	161,771	(50,496)
Veterans Trust	1,500	2,127	(627)
Public Guardian	23,150	29,048	(5,898)

Criteria: Public Act 2 of 1968 is the Uniform Budgeting Act. MCL 141.439 sec 19 states: “A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit. The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.”

Recommendation: Department heads should receive, or be able to view, a copy of their revenue and expenditure reports on a monthly basis. Request for line-item transfers and/or increases/decreases in the budget should be brought before the board as soon as a deviation is detected by the department head or other responsible official.

Management’s Response: With the capabilities and competence and understanding of the new treasurer, departments will be receiving their revenue and expenditure reports on a monthly basis and in a timely manner.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

At this time, by board action all but 8 of the 15 identified negative funds have been made whole and the board will continue to address the additional 7 so that all funds to the best of our ability will meet the standards of the Uniform Budgeting Act. Further, under the directive of Public Act 2 of 1968, appropriate action will be taken through county financial policies and procedures to insure proper monthly reporting as well as line-item transfers and budget increases and decreases and said adjustments shall come before the board for their action.

Uniform Chart of Accounts

Finding 06-13

Condition: The Delinquent Tax Funds use the 600 fund numbers (internal service), Delinquent Tax Property Sales Fund 254 (a special revenue fund number), Housing Administration Fund 875, Housing Revolving Fund 878 and Inmate Welfare Fund 285. These fund numbers do not conform to the Uniform Chart of Accounts numbers for these funds.

Criteria: MCL 141.421, Section 1 states: “The state treasurer shall prescribe uniform charts of accounts for all local units of similar size, function, or service designed to fulfill the requirements of good accounting practices relating to general government. Such chart of accounts shall conform as nearly as practicable to the uniform standards as set forth by the governmental accounting standards board or by a successor organization that establishes national generally accepted accounting standards and is determined acceptable to the state treasurer. The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts. The state treasurer may also publish standard operating procedures and forms for the guidance of local units in establishing and maintaining uniform accounting.”

Recommendation: We recommend that the county assign fund numbers to the above funds in accordance with the Uniform Chart of Accounts when they transition to their updated accounting program by using a data conversion table.

Management’s Response: Within the next three months, (90 days), all fund account numbers will be reviewed with the Uniform Chart Accounts and assure that all funds are properly identified. Where necessary, fund numbers will be changed to reflect the proper number according to the Chart of Accounts.

Wording will be incorporated into the policy reflecting that any newly assigned fund numbers must be as reflected in the Chart of Accounts.

Lack of Transfer of Funds to Revenue Sharing Fund

Finding 06-14

Condition: The county failed to transfer two thirds of the tax levy to the Revenue Sharing Reserve Fund.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Condition: MCL 211.44a, Section 9 states: “Each county shall establish a restricted fund known as the revenue sharing reserve fund. The total amount required to be placed in the revenue sharing reserve fund for each county shall equal the amount of that county's December 2004 property tax levy of the total number of mills allocated to the county by a county tax allocation board or authorized for the county through a separate tax limitation vote and shall be deposited in the revenue sharing reserve fund as provided in this section. Revenues credited to the revenue sharing reserve fund from the December tax levy of a county with a fiscal year ending December 31 shall be accrued to the fiscal year ending in the year of that December property tax levy. Revenue shall be credited to the fund by each county as follows:

- a) From the county’s December 2004 property tax levy, 1/3 of the total December levy of the total number of mills allocated to the county by a county tax allocation board or authorized for the county through a separate tax limitation vote,
- b) From the county’s December 2005 property tax levy, ½ of the remaining balance required to be deposited in the fund.
- c) From the county’s December 2006 property tax levy, the balance required to be deposited in the fund.”

Directive: We direct that the county transfer the funds owed to the Revenue Sharing Reserve Fund as required by law.

Management’s Response: This transfer was accomplished by action taken by the board of commissioners.

Number of Funds

Finding 06-15

Condition: The county has 32 special revenue funds and several other funds. Housing is split into two funds. The sheriff department is part of the general fund and has other special revenue funds they are managing.

Criteria: MCL 21.42, Section 2 states: “The accounting system shall embrace accounts showing all sources of income, the amounts due, collected and received from each source, including all fees collected by county officers whether turned into the county treasury or not, the amount expended for each purpose, bills, and accounts payable; the receipt, use, and disposition of other public property and the income, if any, derived from them. The accounting system shall include other forms of accounts as the state treasurer may consider wise and essential to efficient financial administration of public affairs pertaining to county governments.” (emphasis added)

Directive: We direct the county to minimize the number of funds that are essential to the efficient financial administration used to account for their financial activity.

Management’s Response: Through the cooperation of the treasurer and the board of commissioners, those funds which can be combined or processed through the General Fund will be merged or moved as appropriate. It is recognized that an excessive number of funds can compound the difficulty of the management of those funds.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Deficit Fund Balances

Finding 06-16

Condition: The county had a number of funds that were in a deficit condition at December 31, 2006. A deficit condition means a situation where, at the end of a fiscal year, total expenditures, including an accrued deficit, exceeded total revenues for that fiscal year, including any surplus carried forward. The county did not formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition that existed as of December 31, 2006. The following funds had accumulated fund balance/retained earning deficits in the following individual funds:

<u>Fund</u>	<u>Deficit Equity</u>
General Fund	\$ 458,390
Special Revenue Funds	
County Parks	2,031
Ambulance	67,913
Alcona County EDC	4,892
Child Care Probate	103,301
Probate Public Guardian	9,007
Capital Projects Funds	
Equipment and Replacement	94,054
Capital Projects Fund	9,058
Enterprise Funds	
Inmate Welfare	<u>440</u>
Total Deficits Primary Government	<u><u>\$ 749,086</u></u>

Criteria: MCL 141.921, Section 21 states, in part,: “(2) For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the department of treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the department of treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the department of treasury, the local unit of government shall institute the plan.”

Directive: We direct the county to file a deficit elimination plan with the Department of Treasury.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Management's Response: The treasurer, prior to month end, shall file the deficit elimination plan with the Department of Treasury. We have to date, eliminated the deficits in the following funds: 282 – Alcona County EDC; 292 – Child Care Probate; 298 – Probate Public Guardian; 401 & 402 Equipment and Replacement; 495 – Capital Projects Fund. A plan will be developed prior to month end for those funds not yet adjusted.

Treasurer's Office--Wire Transfers

Finding 06-17

Condition: The county treasurer was able to transfer money from one bank account to another without prior approval and into noncounty accounts. On November 14, 2006, the county board adopted resolution #2006-006-002 which states in part, "Any and all transfers, withdrawals, liquidations, re-investments, redemptions or any like actions relating to any county assets including but not limited to bank accounts, certificate of deposits, bonds, investments of any kind, real, real property, personal property, commercial paper, stocks, etc., hereby requires authorization and verification by written signature from two county officials, one of which shall include the Deputy County Treasurer, Ann McCoy and/or the chairman of the Alcona County Board of Commissioners, Kevin Boyat."

The county did not have an Automated Clearing House (ACH) policy.

Criteria: MCL 124.303 states: A local unit shall not be a party to an ACH arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transactions Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting and generally for overseeing compliance with the ACH policy.
- b) That the officer of employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- c) A system of internal controls to monitor the use of ACH transactions made by the local unit.
- d) The approval of ACH invoices before payment.
- e) Any other matters the treasurer or ETO considers necessary."

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Directive: We direct the county to adopt an ACH policy in accordance with the requirements specified in MCL 124.303. Resolution #2006-006-002 does not address internal controls over the ACH process. To strengthen controls over wire transfers, all financial institutions including those financial institutions that hold county investments, should be notified in writing prior to any new distributions by wire of county money. While it may not be necessary to give them this documentation each and every time which may make the notifications less a priority on the part of the banks, the two-signature authorizations should be sent prior to any new transfers or when banks would be setting up repetitive transfers (codes). The county should also inquire of the banks whether they internally confirm new transfers to make certain they are authorized. Many banks perform this step in their own internal controls.

Management's Response: The county will adopt an Automated Clearing House policy in accordance with the requirements specified in MCL 124.303. In addition, all financial institutions holding county investments or other funds shall be notified in writing prior to new distributions by wire of county money. Further, we will assure with all banks that their internal control will confirm new transfers making certain they are authorized as directed by the county.

Treasurer's Office-Disbursement of State Education Tax

Finding 06-18

Condition: At December 31, 2006, the county had the following balances due to the State for the State Education Tax:

<u>Year</u>	<u>Balance at 12/31/06</u>	<u>Balance at 03/28/07</u>
2001	\$ 13,032	\$ 11,436
2002	14,112	14,112
2003	177,302	177,302
2004	2,214	
2005	237,617	234,817
2006	35,931	77,012
Total	<u>\$480,208</u>	<u>\$514,679</u>

Criteria: MCL 211.44a, Section 10: "By the fifteenth day of each month, the county treasurer shall account for and deliver to the state the collections under the state education tax act, Act No. 331 of the Public Acts of 1993, being section 211.901 to 211.906 of the Michigan Compiled Laws, on hand on the last day of the preceding month. By the first day of each month, the county treasurer shall account for and deliver to the state the collections under the state education tax act, Act No. 331 of the Public Acts of 1993, on hand on or before the fifteenth day of the immediately preceding month. The county treasurer may retain the interest earned on the money collected under Act 331 of Public Acts of 1993 while held by the county treasurer, as reimbursement for the cost incurred by the county in collecting and transmitting the tax imposed by that act. The money retained by the county treasurer under this section shall be deposited in the treasury of the county in which the tax is collected to the credit of the general fund."

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Directive: We direct the county treasurer to transmit the state education tax within the time frame set forth in MCL 211.44a, Section 10.

Management's Response: The treasurer shall conform to transmittal of State Education Tax funds within the time frame set for the in MCL 211.44a, Section 10.

OTHER MATTERS

Investment Policy

Finding 06-19

Condition: The county does not have an updated investment policy that contains credit risk assessments and disclosures for investments as required by GASB Statement No. 40. The county does not have a Check Act 21 policy approved by the board.

Criteria: For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Check Act 21 allows banks to transmit checks for payment electronically and requires entities to have a policy that addresses electronic checks.

Recommendation: We recommend that the county updated the investment policy to include the requirements for GASB Statement No. 40 and have the board adopt the new policy. We also recommend that the board adopt a policy that addresses electronic checks.

Management's Response: The county shall develop an investment policy that contains investment risk assessments and additional disclosure requirements for investments as directed under GASB Statement No. 40. Further, the county shall develop a policy that addresses electronic checks under the conditions set forth in the Check Act 21.

Treasurer's Office--Excessive Number of Investments and Activity

Finding 06-20

Condition: The county has 56 cash and investment accounts, although 28 of these accounts are found at one institution that controls investments at various other banks.

Criteria: Accounts should only be established that are manageable.

Recommendation: We recommend that the county consolidate many of these investments into a more manageable number while keeping the concentration of credit risk (too many deposits and investments in one institution) to a minimum.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Management's Response: The treasurer, with the assistance of the board, shall review the cash and investment accounts recognizing that there is an excessive number of them. This review will lead to a consolidation and/or merger of accounts to minimize the number to a more manageable quantity. This process shall be mindful of the need to also minimize the concentration of credit risk as this process evolves.

Tax Settlement With Local Units of Government

Finding 06-21

Condition: In 2000, the county began purchasing delinquent personal property tax from local units. This has reduced the funds available in the Delinquent Tax Revolving Fund to purchase delinquent property taxes. The county has found the cost of collecting personal property taxes to be prohibitive.

Criteria: The county treasurer is required by the General Property Tax Law (Act 206 of 1893, as amended, Michigan Compiled Law (MCL) 211.1 to 211.157) to collect delinquent real property taxes levied by all local units of government within the county.

Recommendation: We recommend that the county collect delinquent real property taxes and not personal property taxes. The county is not required to collect delinquent personal property taxes.

Management Response: The county shall cease to purchase delinquent personal property taxes from local units of government. Because of those which the county has already recorded, this will become a phasing out process of those from prior years.

Trust and Agency Fund Reconciliations

Finding 06-22

Condition: The trust and agency detail records contain negative liability accounts such as a negative district court revenue account for \$31,872.

Criteria: Trust and Agency Funds, other than expendable trusts, only have asset and liability accounts. Michigan Department of Treasury Accounting Policies and Procedures Manual states: "reconciliation to the general ledger and supporting ledgers should be performed in a timely manner (i.e., within thirty days of month end)."

Recommendation: Only assets and liabilities should be account for in the Trust and Agency Funds except for expendable trusts. All balances should be reconciled monthly, especially for amounts that did not clear from the prior month.

Management's Response: The county recognizes that only assets and liabilities shall be accounted for in the Trust and Agency Funds except for expendable trusts. The treasurer shall insure that these shall follow the Michigan Department of Treasury Accounting Policies and Procedures Manual and that all balances shall be reconciled monthly.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Ambulance Receivables

Finding 06-23

Condition: The county agreed to participate with various insurers for the ambulance services provided to county citizens and visitors of the county. All insurers send payment of services statements for each individual billing by the ambulance department. The statement shows the full billed amount, allowed amount, payment reduction amount and patient co-payment (if any). The ambulance department has the board approve all write-offs of unpaid receivables.

The ambulance department leaves the payment reduction amount on the patient receivable until the patient has paid their share in full. For some patients, this may be a number of years until their balance is paid off, especially if they have multiple runs and therefore overstates the patient receivables.

Criteria: The payment reduction amount is required in the agreement with the insurer to be removed from the patient billings. An allowance for doubtful accounts is used to estimate those receivables that may not be collected

Recommendation: We recommend that the payment reduction amount be immediately written off of the patient receivable when the insurer statement is received. All reductions for patient receivables should still be brought before the board for write-off approval before writing them off. The board should create an estimate for an allowance for doubtful accounts so that patient receivables will be fairly stated.

Management's Response: The board will continue to provide board action to give write-off approval prior to writing them off. In addition to this, the board will recognize the payment reduction amount be immediately written off of the patient receivables.

Board of County Commissioners--Fraud Risk Management Program

Finding 06-24

Condition: The management of the county has not developed a fraud risk management program that is appropriate for the size and complexity of the entity, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: Statements on Auditing Standards (SAS) AU 110.03 states in part: "Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements." Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

ALCONA COUNTY

COMMENTS AND RECOMMENDATIONS

Recommendation: We are providing the above information to the county for informational purposes for adopting and developing a fraud risk management program.

Management's Response: Utilizing SAS AU 110.03, the board shall develop and adopt a fraud risk management program.